

Washington State Operating Budget

Briefing Book

January 2015
Office of Program Research

Table of Contents

House Appropriations Committee.....	2
Appropriations	3
Appropriations Committee Staff and Assignments	5
Budget Overview.....	7
Operating Budget History	20
Functional Areas	33
General Government.....	35
Early Learning.....	39
K-12 Public Schools	42
Higher Education	49
Health & Human Services	54
Natural Resources	80
Other Budget Items	83
Expenditure Limit	84
Restrictions on Legislation that Raises Taxes and Fees	87
Debt Service.....	90
Federal Patient Protection and Affordable Care Act	92
Pensions	94
Legal and Other Budget Considerations... ..	98
Appendix 1	102
<i>Revenue Overview</i>	
Appendix 2	106
<i>Glossary of Budget Terms</i>	

House Appropriations Committee

*House Appropriations Committee
2015 Roster of Members*

<i>Representative</i>	<i>Phone</i>	<i>Office</i>	<i>Legislative Assistant</i>
Ross Hunter (D), Chair	7936	JLOB 315	Genevieve Stokes
Timm Ormsby (D), Vice Chair	7946	LEG 122H	Shannon Waechter
Bruce Chandler (R), Ranking Minority Member	7960	LEG 427B	Melinda Bailey
J.T. Wilcox (R), Assistant Ranking Minority Member	7912	LEG 426A	Sharon Trask
Kevin Parker (R), Assistant Ranking Minority Member	7922	JLOB 421	Mary McAleer
Vincent Buys (R)	7854	JLOB 465	Amanda Smith
Reuven Carlyle (D)	7814	JLOB 325	Kate Hoffman
Eileen Cody (D)	7978	JLOB 303	Siobhan Mahorter
Cary Condotta (R)	7954	Leg 425B	Brandt Cappell
Tom Dent (R)	7932	JLOB 411	Marge Plumage
Hans Dunshee (D)	7804	JLOB 314	Josie Regan
Susan Fagan (R)	7942	JLOB 432	Shelby Pelon
Larry Haler (R)	7986	LEG 122D	Jan Swenson
Drew Hansen (D)	7842	JLOB 369	Jillian Kilby
Zack Hudgins (D)	7956	LEG 438A	Douglas Honma
Graham Hunt (R)	7824	JLOB 406	Barb Peters
Sam Hunt (D)	7992	LEG 438B	Meagan Arndt
Laurie Jenkins (D)	7930	JLOB 311	Lynda Foster
Ruth Kagi (D)	7910	JLOB 308	Jessica Puckett
Kristine Lytton (D)	7800	LEG 429A	Meagan West
Drew MacEwen	7902	JLOB 434	Josiah Rowell
Chad Magendanz (R)	7876	JLOB 427	Jessica Mohr
Eric Pettigrew (D)	7838	LEG 434B	Lanna Ripp
David Sawyer (D)	7906	JLOB 306	Olgy Diaz
Joe Schmick (R)	7844	LEG 426B	Dasha Narog (Pam Kentner)
Tana Senn (D)	7894	JLOB 309	William Parmer
Larry Springer (D)	7822	LEG 132E	Ariel Taylor

Drew Stokesbary (R)	7846	JLOB 426	Joel Baxter
Pat Sullivan (D)	7858	LEG 339A	Lesley Roberts
David Taylor (R)	7874	JLOB 428	Jaime Rowland
Steve Tharinger (D)	7904	JLOB 368	Leanne Horn
Luanne Van Werven (R)	7980	JLOB 419	Bryan Yon
Brady Walkinshaw (D)	7826	JLOB 328	Curtis Knapp

APPROPRIATIONS COMMITTEE STAFF

Coordinator:	Charlie Gavigan	7340	JLOB 223
Asst. Coord.:	Dave Johnson	7154	JLOB 218
Counsel:	Kristen Fraser	7148	JLOB 220
Leg. Asst:	Lisa McCollum	7155	JLOB 222-A
Leg. Asst:	Rebecca Lewis	7204	JLOB 225-A

Compensation/Pensions

Pension Counsel:	David Pringle*	7310	JLOB 226
------------------	----------------	------	----------

Education

Fisc. Analyst:	Jessica Harrell	7349	JLOB 219
Fisc. Analyst:	Catrina Lucero	7192	JLOB 212

Government Operations

Fisc. Analyst:	Meghan Bunch*	7119	JLOB 216
Fisc. Analyst	Rachelle Harris*	7137	JLOB 215
Fisc. Analyst:	Melissa Palmer*	7388	JLOB 216
Fisc. Analyst:	Derek Rutter*	7157	JLOB 211

Health & Human Services

Fisc. Analyst:	Andy Toulon*	7178	JLOB 222
Fisc. Analyst:	Erik Cornellier	7116	JLOB 231
Fisc. Analyst:	James Kettel	7123	JLOB 214
Fisc. Analyst:	Mary Mulholland	7391	JLOB 210
Fisc. Analyst:	Melissa Palmer*	7388	JLOB 216

Natural Resources

Fisc. Analyst:	Dan Jones*	7118	JLOB 214
----------------	------------	------	----------

Session Staff

Clerk:	Alexandria Vaughn	7068	JLOB B-2
Clerk:	Michael Birlenbach	7068	JLOB B-2

*Also staffs General Government and Information Technology

HOUSE APPROPRIATIONS AND GGIT* STAFF ASSIGNMENTS

2015 Session

Charlie Gavigan Staff Coordinator 786-7340	David Pringle* 786-7310	Meghan Bunch* 786-7119
David Johnson Asst. Coordinator 786-7154	Pension Counsel	Administrative Hearings Office
Budget Development	GGIT Committee Counsel	Attorney General
	Actuary, State	Auditor, State
	Compensation, State Employees	Enterprise Services, Department of
	Health Benefits, State Employees (PEBB)	Gambling Commission
Kristen Fraser 786-7148	LEOFF 2 Board	Horse Racing Commission
APP Committee Counsel	Pension Contribution Rates	Interagency Billing Model
Sundry Claims	Pension Policy	Licensing, Department of
	Public Employees Relations Commission	Military Department
	Retirement Systems, Department of	Public Disclosure Commission
Lisa McCollum LA** (APP) 786-7155	State Investment Board	Revenue, Department of
Rebecca Lewis LA** (APP) 786-7204	Vol. Firefighters & Reserve Officers, Board for	Secretary of State (including State Library)
Ian Kinder-Pyle LA** (GGIT) 786-7717		State Patrol, Washington
Tanya Carter Computer Analyst 786-7619		Tax Appeals, Board of (budget)
**Committee Legislative Assistant	Jessica Harrell 786-7349	Treasurer, State
	K-12 Public Schools (including OSPI)	Utilities and Transportation Commission
Erik Cornellier 786-7116	Center for Childhood Deafness & Hearing Loss	
Health Care Authority (including medicaid but excluding employee health care benefits)	Charter School Commission	<i>Judicial Agencies</i>
	Education Legacy Trust Account	Administrative Office of the Courts
	Health Benefits K-12	Court of Appeals
	School for the Blind	Judicial Conduct Commission
Andy Toulon* 786-7178		Law Library, State
GGIT Committee Scheduling	Catrina Lucero 786-7192	Office of Civil Legal Aid
DSHS - Alcohol & Substance Abuse Programs	Early Learning, Department of	Office of Public Defense
DSHS - Mental Health		Supreme Court
	Central Washington University	
James Kettel 786-7123	Community & Technical Colleges	Dan Jones* 786-7118
DSHS - Developmental Disabilities	Eastern Washington University	Agriculture, Department of
DSHS - Long Term Care	Higher Education Compensation	Columbia River Gorge Commission
DSHS - Vocational Rehabilitation	Student Achievement Council (was prev. HECB)	Conservation Commission, State
DSHS - Special Commitment Center	The Evergreen State College	Ecology, Department of
Services for the Blind, Department of	University of Washington	Environmental & Land Use Hearings Office
Veterans Affairs, Department of	Washington State University	Fish & Wildlife, Department of
	Western Washington University	Natural Resources, Department of
	Workforce Training and Education Board	Parks & Recreation, State
Mary Mulholland 786-7391		Pollution Liability Insurance Agency
DSHS - Admin & Support Services	Derek Rutter* 786-7157	Puget Sound Partnership
DSHS - Children & Family Services	Commerce, Department of	Recreation and Conservation Office
DSHS - Consolidated Field Services	Consolidated Technology Services	
DSHS - Information Services	Criminal Justice Training Commission (CJTC)	Rachelle Harris* 786-7137
DSHS - Juvenile Rehabilitation Administration (JRA)	Governor, Office of the	Accountancy, Board of
DSHS - Payments to other Agencies	House of Representatives	African-American Affairs, Commission on
Employment Security, Department of	Industrial Insurance Appeals, Board of	Archeology & Historic Preservation, Dept. of
Health, Department of (DOH)	InformationTechnology, Global Items	Arts Commission
	Innovate Washington	Asian-Pacific American Affairs, Commission on
Melissa Palmer* 786-7388	Joint Legislative Audit and Review Cmte (JLARC)	Caseload Forecast Council
Bond Retirement & Interest	Labor & Industries, Department of	Corrections, Department of
DSHS - Economic Services	Leg Evaluation & Accountability Program	Economic & Revenue Forecast Council
Life Sciences Discovery Program	Legislative Service Center	Elected Officials Salaries
Liquor Control Board	Legislative Support Services, Office of	Financial Institutions, Department of
Lottery Commission	Lieutenant Governor, Office of the	Forensic Investigations Council
Special Appropriations	Office of Financial Management (OFM)	Hispanic Affairs, Commission on
	Senate	Historical Society, Eastern Washington
<i>Other items</i>	Statute Law Committee (Code Reviser)	Historical Society, Washington State
Agency Loans		Human Rights Commission
Approps In Other Legislation		Indian Affairs, Governor's Office of
Expenditure Limit		Insurance Commissioner
Four-year Budget Outlook		Minority/Women's Business Enterprise, Office of
Treasurer's Transfers		Redistricting Commission
	*GGIT - Committee on General Government and Information Technology	

1/16/2015

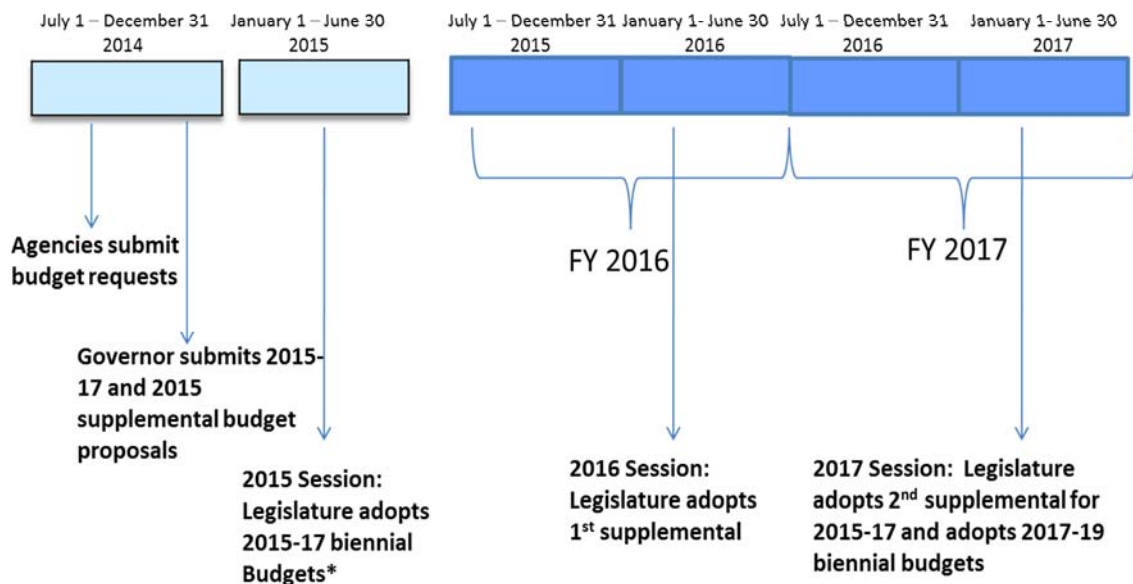
Budget Overview

Background

Washington State is on a biennial (two-year) budget cycle. The budgets for the 2015-17 biennium cover the period from July 1, 2015 through June 30, 2017. (The biennium is Fiscal Year 2016, from July 1, 2015, through June 30, 2016, and Fiscal Year 2017, from July 1, 2016, through June 30, 2017.) The primary two-year budget is enacted in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget almost always is enacted during the even-numbered years (and sometimes a 2nd or 3rd supplemental budget is enacted).

The Legislature authorizes expenditures for operating, transportation, and capital purposes in separate budgets. This document focuses on the Operating Budget.

2015-17 Biennial Budget Calendar



*Agencies developed budget proposals in summer 2014, submitted in September. Governor's office develops budget proposals in fall and Governor makes proposals public in December. Legislature develops budgets during session(s) and sends to Governor.

Operating Budget: The operating budget includes appropriations for the general day-to-day operating expenses of state agencies, colleges and universities, and the public schools. Apportionments to school districts, leases, goods and services, employee salaries and benefits, and medical assistance payments are typical operating expenses. About half of the operating budget is financed by the state general fund with the balance from federal and other funding sources. The major sources of General Fund-State revenues (forecasted for the 2015-17 biennium) are the retail sales and use tax (52%), the business and occupation tax (20%), and the state property tax (11%).

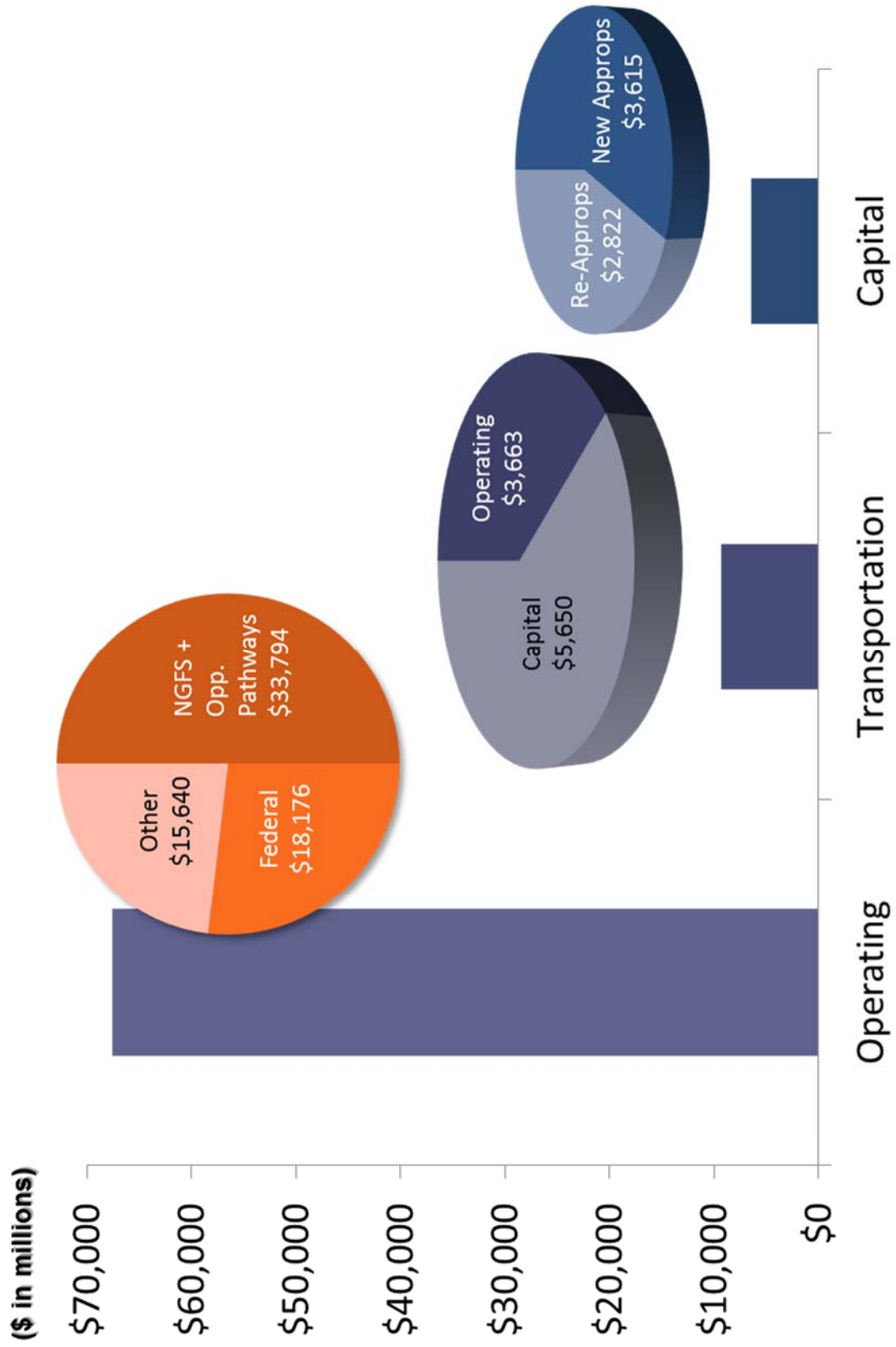
Funding from the Operating Budget provides:

- K-12 Education – *for more than 1,016,000 students*
- Higher Education – *for over 233,000 students*
- Health Care – *for about 1,658,000 children and low income adults*
- Social Services – *for children, adults, and families*
- Public Safety – *including prison for more than 17,512 inmates and community supervision for over 16,725 offenders*
- Natural Resource and Recreation Programs
- Government Operations
- Debt Service on bonds for capital projects (including K-12 and higher education)

Capital Budget: The capital budget includes appropriations for the construction and repair of state office buildings, colleges and universities, prisons and juvenile rehabilitation facilities, parks, public schools, housing for low-income and disabled persons, and for other capital facilities and programs. Over half of the capital budget is financed by state-issued bonds, while the rest is funded by dedicated accounts, trust revenue, and federal funding sources. The budget often reappropriates moneys from previous biennia when projects have not been completed; major projects can take four or more years to design and construct. While the proceeds of bond sales are spent under the capital budget, the operating budget pays for the debt service on the bonds. Operating budget decisions can affect the capital budget and vice versa.

Transportation Budget: The transportation budget includes the operating (33%) and capital (67%) costs of state and local highways, ferries, and motor vehicle registration and enforcement. About 75% of the 2013-15 transportation budget is funded by state resources (22% from bonds), 2% from local sources, and about 23% from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax; these are separate from the capital budget.

There are Actually Three Different Budgets totaling \$83 billion for the 2013-15 biennium



Notes: Debt Service paid in operating budget. Data is 2013-15 including the 2014 supplemental.

Budget Development Process

Agency budget requests generally are prepared during the summer and submitted to the Governor's Office of Financial Management (OFM). The OFM evaluates these budget requests during the fall and makes recommendations to the Governor. The Governor publishes his or her budget proposals in December and submits them to the Legislature in January as an executive request bill. The Legislature holds hearings, drafts its own budget proposals in bill form, passes the budgets, and sends them to the Governor for consideration.

Maintenance Level and Policy Items

A new operating budget generally is accomplished through incremental changes to the current budget. The maintenance level budget is the estimated cost of providing currently authorized services in the new budget period. It is calculated using current ongoing appropriations, any bow wave adjustments (costs or savings), and adjustments for caseload/enrollment changes to **mandatory** programs. The maintenance level budgets for some of the largest programs are calculated using what is effectively a zero-based approach. The caseload forecast (prepared by the independent Caseload Forecast Council) projects the number of persons expected to seek and meet entitlement requirements for services including the K-12 public school system, long-term care, medical assistance, foster care, and adoption support. The mandatory per client costs by fund source (and before any change to statutes or vendor rates) are then calculated for each caseload. Maintenance level then reflects this level of funding.

Once the maintenance level is estimated, the Governor and Legislature focus on policy changes to the maintenance level budget. These policy level decisions can add funding for new or expanded services/programs or reduce or eliminate funding for existing services/programs. While the net policy changes (policy additions and reductions combined) can be relatively small, the absolute value of the policy additions and reductions is typically significant. These policy level decisions generally are made after reviewing the activities of agencies and programs in the base budget.

In the end, the Legislature adopts a single funding level for any given program. Previous expenditures, carry-forward, maintenance and policy steps are simply a way of communicating both how the budget was calculated and how it changes previous policy decisions.

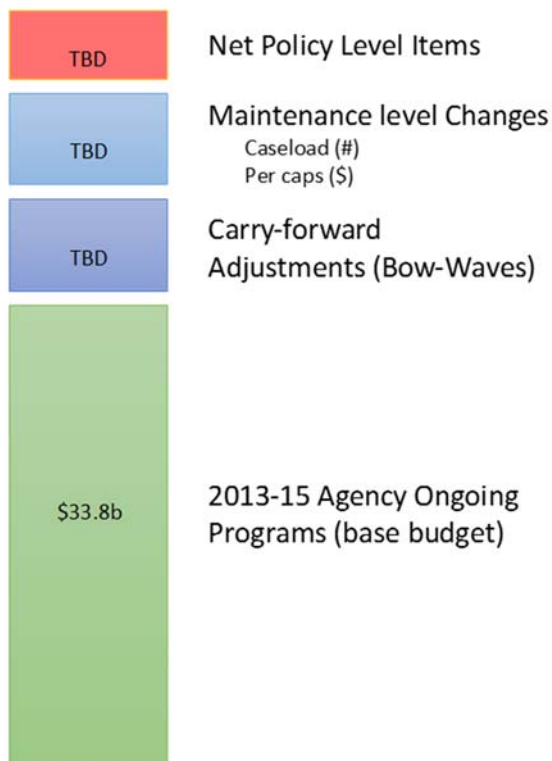
Here is a brief outline of the budget development process for a new biennial budget:

- **Start with previous biennial budget**
 - Reverse one-time adds or reductions in the previous biennium.
 - Adjust (biennialize) for ongoing adds or reductions enacted part way through the previous biennium.
 - Adjust for mandatory caseload or per cap (costs per client) changes (for statutory/constitutional entitlements).
 - Adjust for mandatory items that by statute had a delayed effective date or are reactivated in the new biennium, after being suspended in a previous biennium.
- **This results in the Maintenance Level budget for new biennium**
- **Make Policy Level decisions (changes to Maintenance Level)**
 - Create and fund a new program?

- Enhance an existing program and increase its funding?
- Eliminate an existing program and its funding?
- Reduce an existing program and its funding?
- Make changes to the structure of agencies or programs and related funding implications?
- **This results in the new biennial budget making single appropriations (by fund) for each agency.**

Budget Overview

(2015-17, NGF-S and Opp. Pathways)



Reviewed By:

Members (By definition, changes to the base budget)

Staff technical review

(non-technical items moved to policy)

Legislative Activities:

Member Questions/Requests For Information

(Note: any changes are then shown as policy changes)

Staff Zero Base Costs of True Entitlements

Informal Briefings

Staff Research (review models, Q&A with agencies, etc.)

Potential Reductions Lists

Policy Comm. (bills amend current law, work sessions)

Review Activity lists (prepared by agencies/OFM)

Review All Programs/Services Provided by Agencies

Audit & Performance Review Activities:

SAO Performance Audits

SAO Financial/Compliance Audits

JLARC Performance Audits

GMAP Process

OFM & Agency Activities:

Strategic Planning Process + IT Strategic Plans

Budget Building Process (Agency and Gov.)

Agency/Gov Request Legislation Process

POG (Activity Based) Process

Allotment Process, Including Performance Measures

Appropriations, Funds and Accounts

Appropriations in the operating budget are authorizations to spend up to a specific amount from a specified state fund or account (legally a fund and account are the same). The appropriations are by agency, or by program in the case of the Department of Social and Health Services and K-12 Public Schools, rather than by specific service provided or by object of expenditure (such as salaries and travel). The Legislature does place some specific limitations on appropriations through budget provisos, and expects agencies to implement the general appropriations based on the activities required by statute or that are ongoing activities in the maintenance level budget adjusted for policy level decisions in the new budget.

If a fund or account is located within the state treasury, an appropriation is required for expenditures from that fund/account. Under the constitution, tax revenues must be deposited in appropriated treasury funds/accounts.

Some funds and accounts are nonappropriated; they are deemed in the custody of the State Treasurer, rather than in the treasury itself, and are generally restricted to a particular purpose. In that event, no appropriation is required although the budget documents may still suggest a funding level.

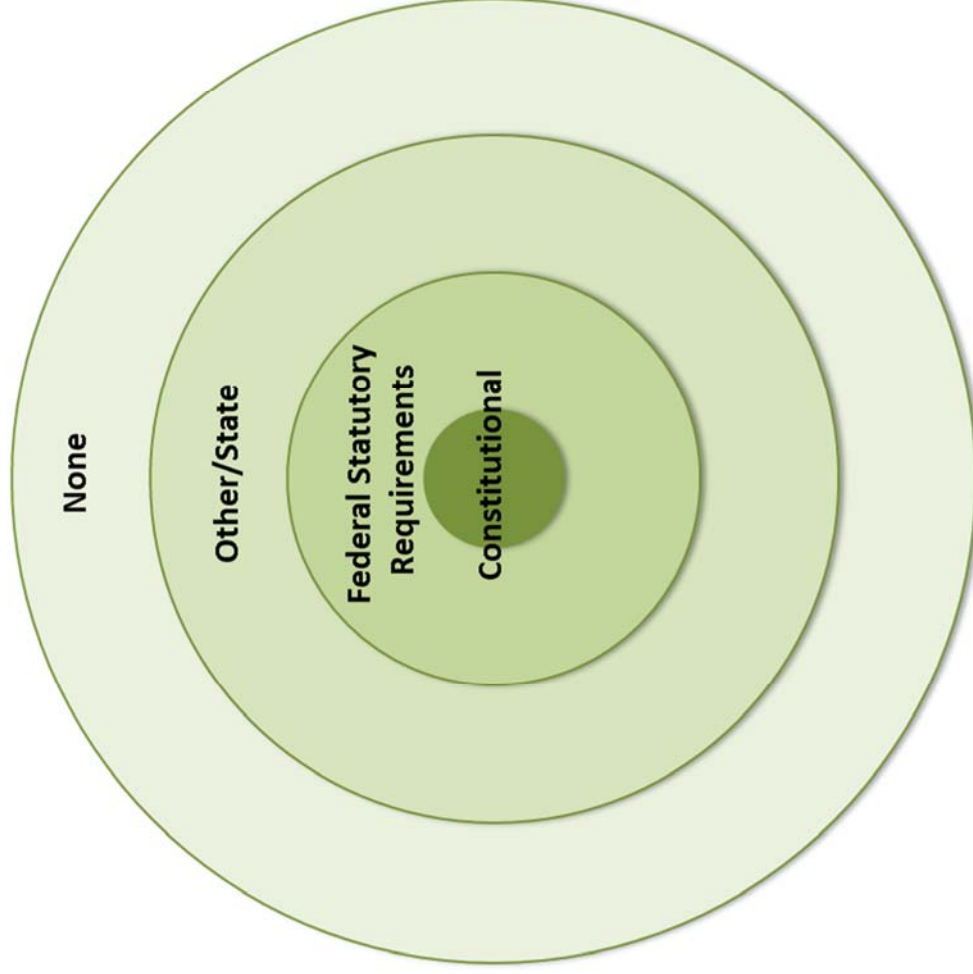
The largest fund/account is the general fund. Revenues not directed otherwise are deposited in the general fund. The General Fund-State (GF-S) account, the Pension Funding Stabilization Account, and the Education Legacy Trust Account are commonly referred to as Near General Fund-State (NGF-S) accounts. Often, budget documents refer to NGF-S plus the Opportunity Pathways Account. Most other funds and accounts are for much more specific purposes.

Mandatory Funding Obligations

A substantial portion of the operating budget must be funded by the Legislature as a result of constitutional, federal, or contractual requirements. Areas of the budget with little or no funding discretion include K-12 basic education, debt service, and pension contractual obligations. To the extent the state agrees to participate in Medicaid (a joint state-federal health care program), the Legislature has limited discretion in several entitlement or caseload driven programs in the Department of Social and Health Services and the Health Care Authority such as medical assistance, long-term care, and developmentally disabled services. When state law requires the confinement of prisoners and juveniles, certain requirements must be met (safety, health care, etc.). This is true as well when persons are legally in the care of the state such as foster children. Arguably the Legislature must fund some amount for constitutionally created agencies such as certain statewide elected officials, the Legislature, and the judicial system.

The percentage of the operating budget considered to be mandatory depends on one's perspectives and the caveat that the Legislature could change the underlying requirements in some cases. However, considering that funding for K-12 basic education, debt service, pensions, mandatory Medicaid related requirements, corrections (to the extent the state doesn't significantly change sentencing provisions), juvenile rehabilitation, child protective/welfare services, foster care, and other programs for persons in the care of the state, the portion of the budget with little or no discretion is likely between two-thirds and four-fifths of the budget, again depending on one's perspectives.

Some spending is mandatory and some is discretionary



Requirements With Constitutional Elements

- K-12 Basic Ed
- Debt Service
- Some Pension Contribution Obligations
- Some Level of Funding for Judicial, Legislative & Executive Offices
- Some level of care in institutional and foster care programs*
- Approved collective bargaining agreements & other contracts**

Federal Statutory Requirements

- Since the state participates in Medicaid, it must fund:
 - core populations & core services; and
 - other requirements (i.e. rate issues).
- TANF/Maintenance of Effort (MOE)
- Cost obligations if state participates in certain federal programs (i.e., admin costs for food stamps)

State Statutory and Other Requirements

- State-created statutory entitlements ***
- Funding that, if reduced, may increase entitlement costs
- Funding to avoid state liability in areas of responsibility
- Other Statutory Programs

Discretionary

- Programs without a statutory (created in the budget) requirement

Concentric circles are illustrative only and not to scale.

* Includes prisons, JRA facilities, state hospitals, DD facilities, foster care, SCC, etc.

** Contracts may be renegotiated. Also, some contracts have termination and/or fiscal shortfall clauses that may be invoked.

*** Can be changed via legislation.

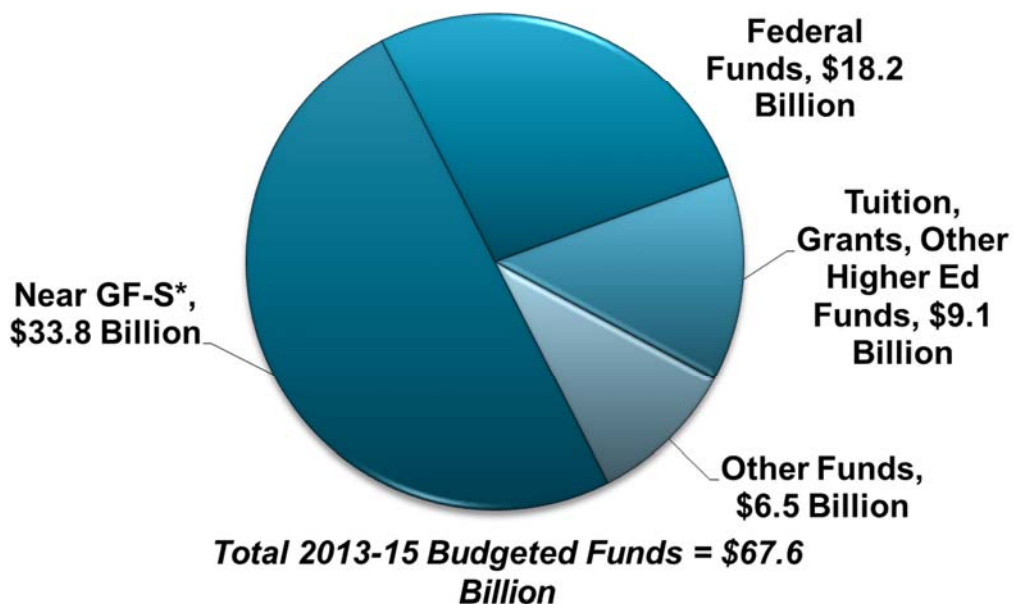
FTEs (Full Time Equivalent)

Full Time Equivalent (FTE) is a unit of measurement that relates to state employees and students. For state employees, FTE refers to one person working full-time for one year. This equates to working approximately 2,088 hours of paid staff time. Two persons working half-time count as one FTE. For K-12 and higher education students, FTE refers to the equivalent of one student attending class full-time for one school year based on fixed hours of attendance (which vary depending on grade level).

State FTEs include employees working for state agencies and public higher education institutions. Except for the Office of the Superintendent of Public Instruction, K-12 employees are not state employees; they are employed by the local school district. State funding K-12 is apportioned to the school districts that then pay the salaries and benefits of K-12 public school district employees.

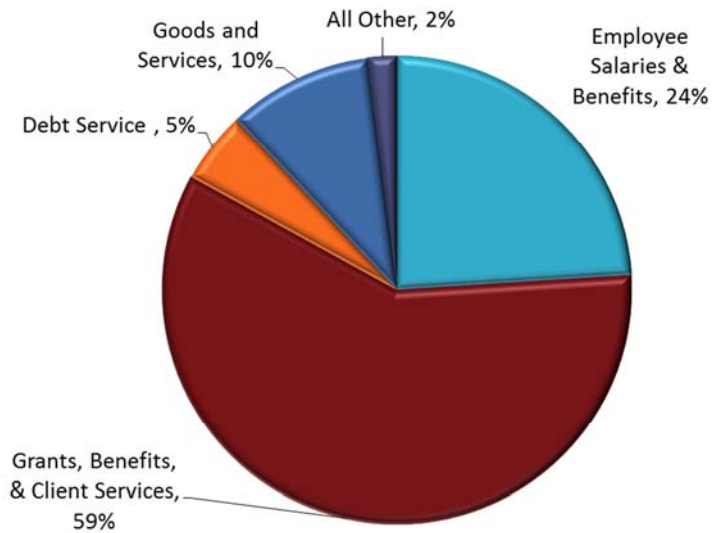
Total state FTEs for FY 2014 was 108,984 (the peak was 112,574 in 2009). Higher education made up 46% of the state total.

Where Does the Money Come From?



* Plus Opportunity Pathways

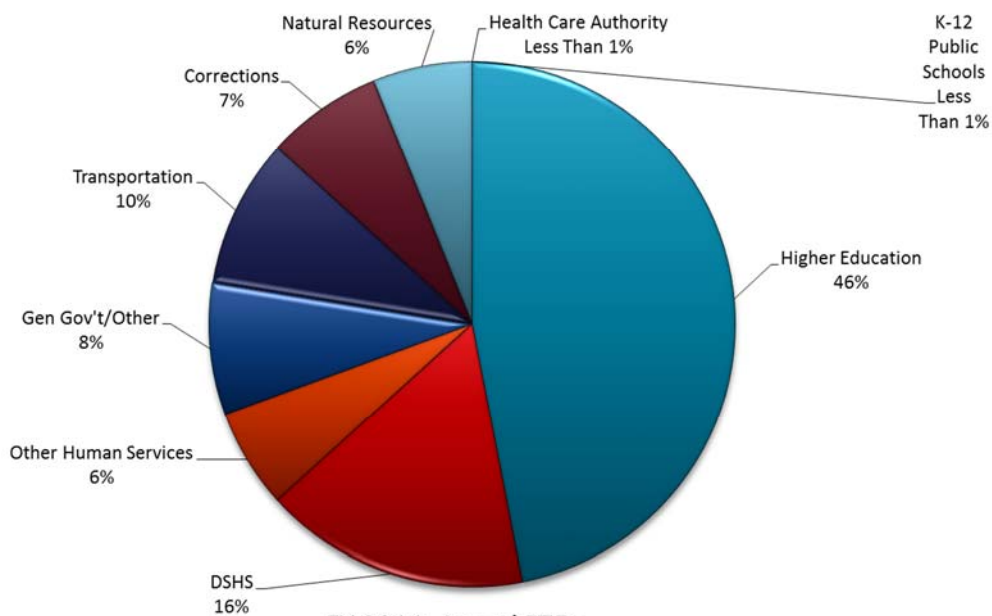
What Did the State Purchase?



Note: Most K-12 spending is displayed as Grants, Benefits, and Client Services

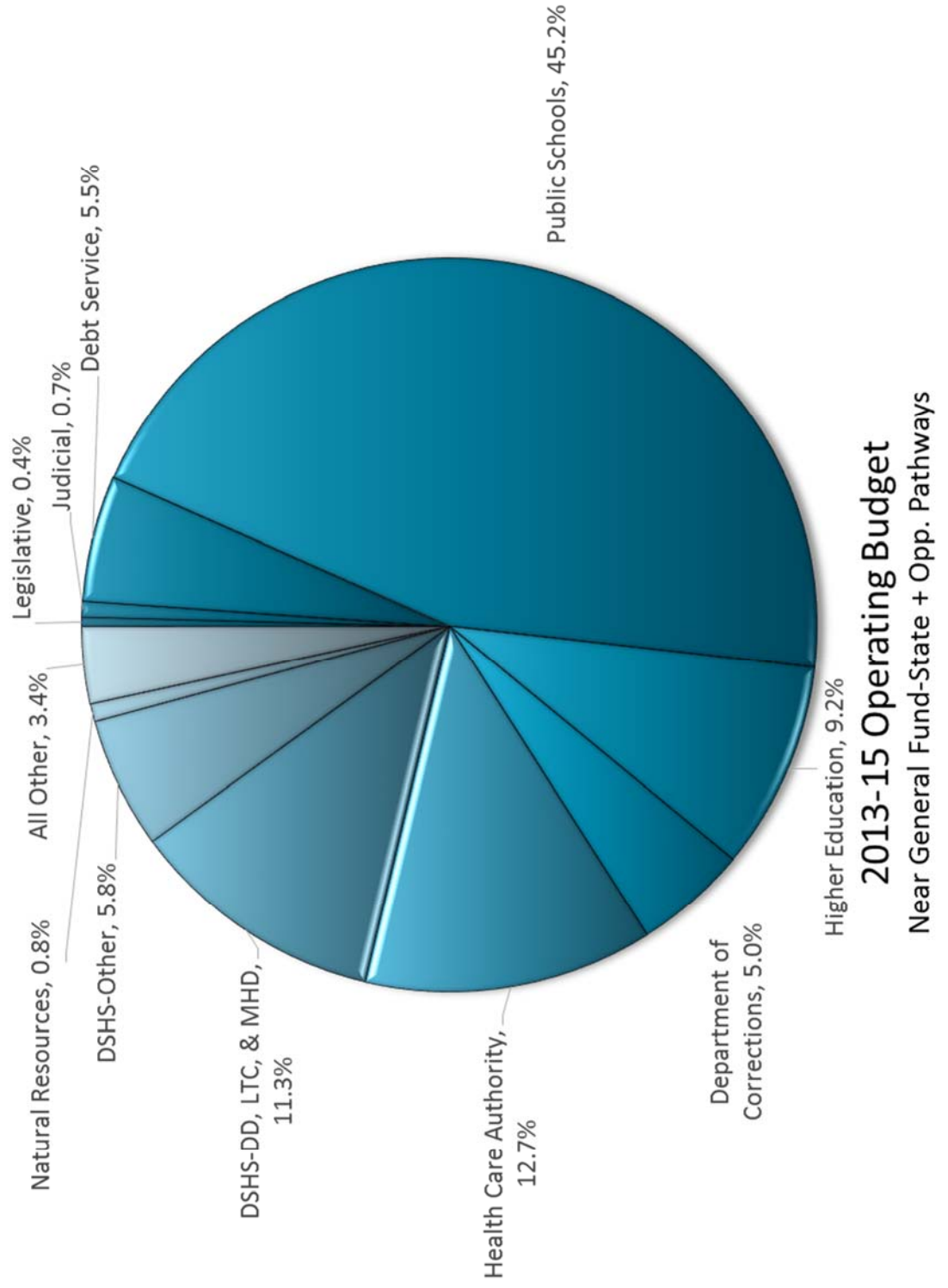
FY 2014: Actual Spending By Object
Total Budgeted Operating Funds (\$35.1 billion)

Where Did State Employees Work?



FY 2014: Actual FTEs
(Operating, Capital, and Transportation Total Budgets; 108,984 FTEs)

Where Are Funds in the Operating Budget Spent?



2013-15 Near General Fund – State + Opportunity Pathways

Legislative	141,131
Judicial	242,318
Natural Resources	270,444
Corrections	1,693,615
DSHS-DD, LTC, & MHD	3,808,268
DSHS-All Other	1,947,290
Health Care Authority	4,306,730
Public Schools	15,262,882
Higher Education	3,098,248
Debt Service	1,847,916
All Other (Including Governmental Operations)	1,175,230
Total	\$33,794,072

Operating Budget Drivers

(Covers 88% of the NGFS Budget)

Public Schools (45%)

- Enrollment
- Inflation
- Staff Mix
- Redefining Basic Education

Low Income Health (13%)

- Caseloads
- Utilization & Inflation
- Health Care Reform

Debt Service (5%)

- Capital Budget (size)
- Interest Rates

Higher Education (9%)

- Mostly Discretionary
- Enrollment
- Tuition & Financial Aid

Corrections (5%)

- Inmate Population
- Inmate Mix
- Community Supervision

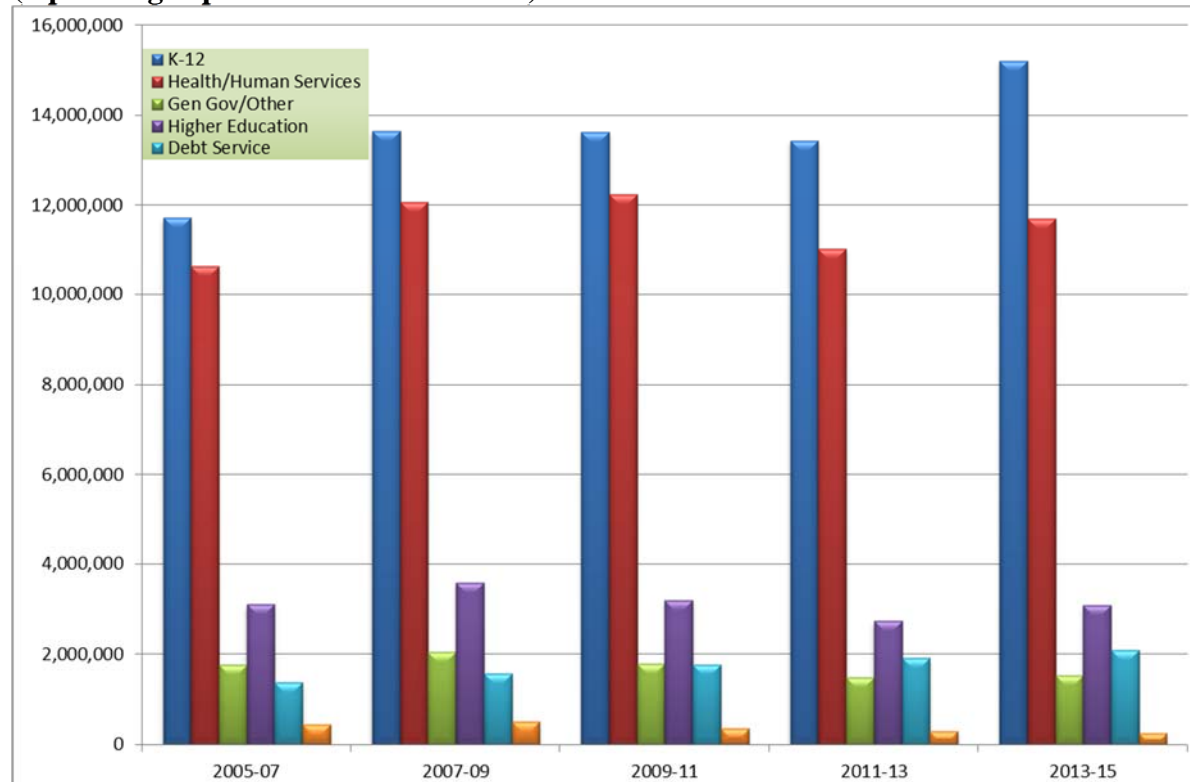
DD, LTC, and MHD (11%)

- Population/Caseloads
- Acuity Mix
- Care Settings

Operating Budget History

NGFS + Opportunity Pathways + ARRA Functional Area History*

(Operating expenditures in thousands)



NGFS + Opportunity Pathways Functional Area History (\$ in thousands)

	2005-07	2007-09	2009-11	2011-13	2013-15
K-12	11,720,356	13,646,457	13,625,730	13,437,825	15,208,877
Health/Human Services	10,623,951	12,064,489	12,236,082	11,031,532	11,698,815
Gen Gov/Other	1,764,429	2,048,981	1,783,550	1,488,460	1,537,898
Higher Education	3,098,951	3,580,950	3,194,142	2,733,672	3,076,130
Debt Service	1,368,696	1,564,737	1,772,678	1,908,744	2,081,874
Natural Resources	451,622	508,650	353,477	298,942	262,680
Total	29,028,005	33,414,264	32,965,659	30,899,175	33,866,274

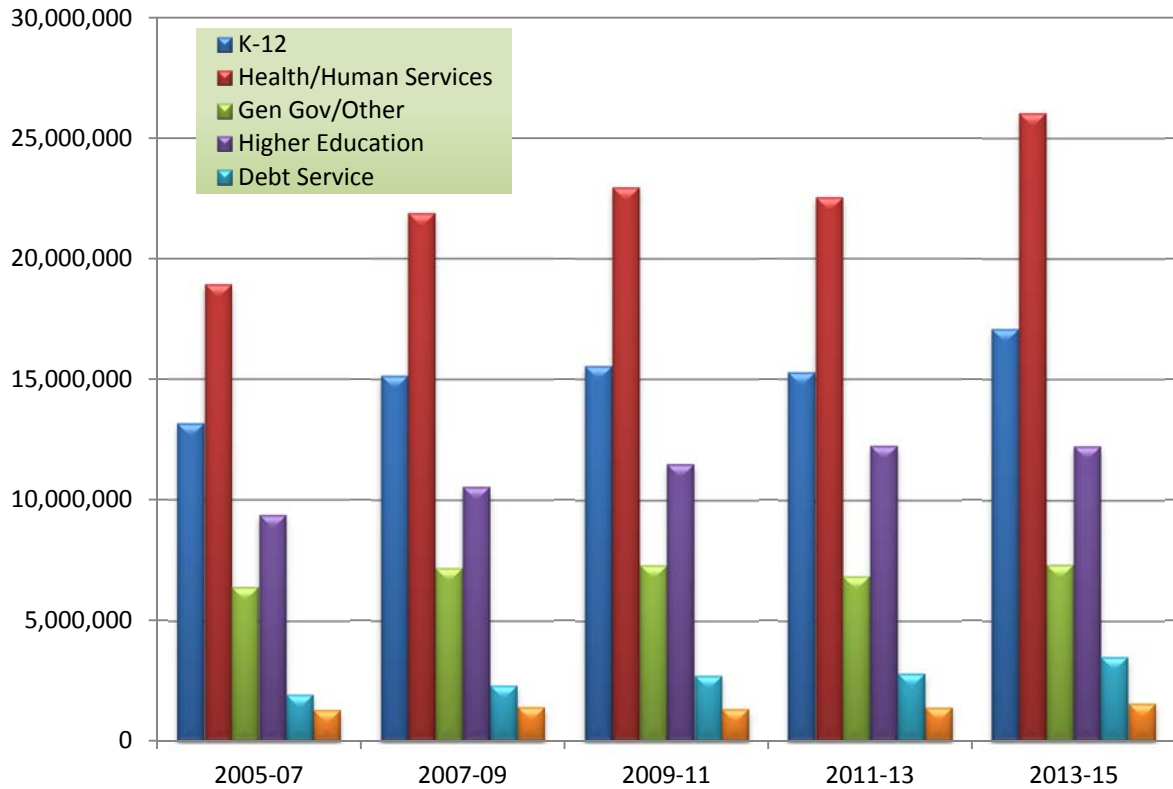
Functional Areas as Percent of Total Budget

	2005-07	2007-09	2009-11	2011-13	2013-15
K-12	40%	41%	41%	43%	45%
Health/Human Services	37%	36%	37%	36%	35%
Gen Gov/Other	6%	6%	5%	5%	5%
Higher Education	11%	11%	10%	9%	9%
Debt Services	5%	5%	5%	6%	6%
Natural Resources	2%	2%	1%	1%	1%

*For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into “reserve” accounts. 2003-05 through 2011-13 are actual expenditures; 2013-15 is budgeted expenditures.

Total Budget Functional Area History*

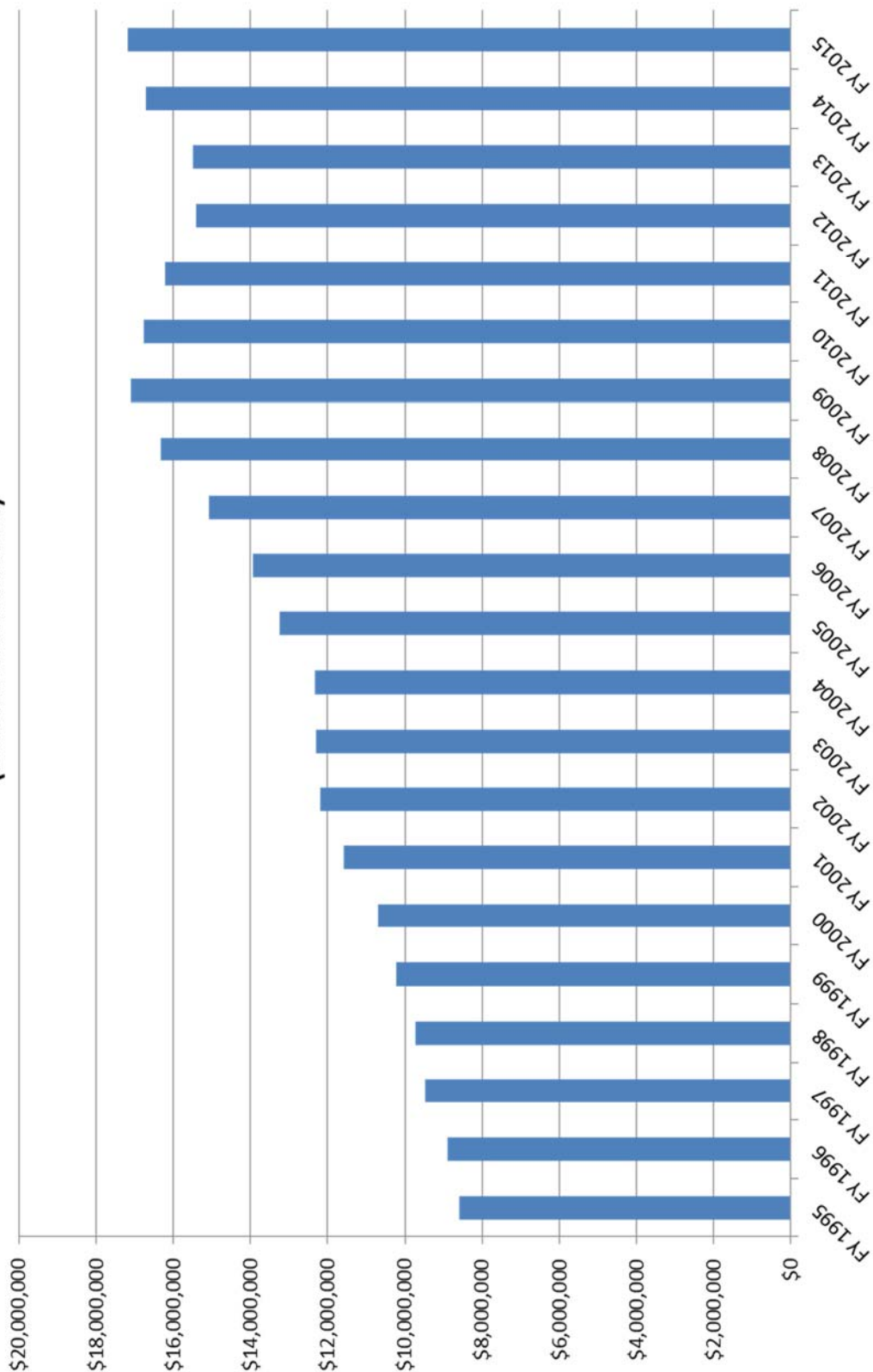
(Operating expenditures in thousands)



Total Budgeted Functional Area History (\$ in thousands)					
	2005-07	2007-09	2009-11	2011-13	2013-15
K-12	13,173,860	15,158,080	15,559,283	15,290,937	17,097,327
Health/Human Services	18,936,998	21,889,674	22,969,509	22,550,602	26,055,254
Gen Gov/Other	6,412,246	7,191,621	7,323,238	6,862,385	7,341,243
Higher Education	9,375,138	10,560,751	11,487,542	12,242,351	12,261,461
Debt Service	1,959,478	2,334,097	2,744,647	2,826,228	3,522,596
Natural Resources	1,320,066	1,443,207	1,359,062	1,423,034	1,589,930
Total	51,177,786	58,577,430	61,443,281	61,195,537	67,867,811
Functional Areas as Percent of Total Budget					
	2003-05	2005-07	2007-09	2009-11	2011-13
K-12	26%	26%	25%	25%	25%
Health/Human Services	37%	37%	37%	37%	38%
Gen Gov/Other	13%	12%	12%	11%	11%
Higher Education	18%	18%	19%	20%	18%
Debt Services	4%	4%	4%	5%	5%
Natural Resources	3%	2%	2%	2%	2%

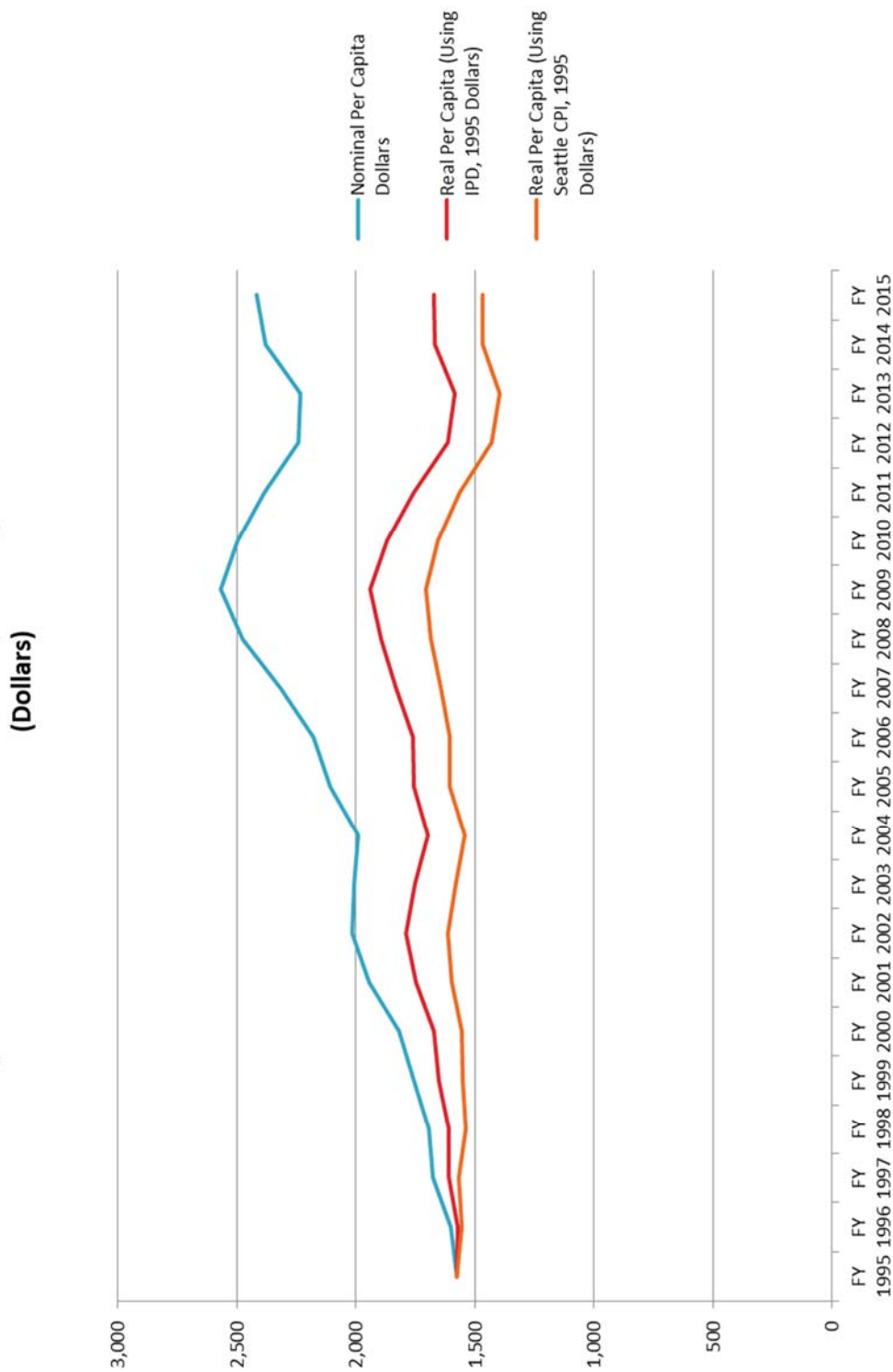
*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into “reserves”. 2003-05 through 2011-13 are actual expenditures, 2013-15 is budgeted expenditures.

NGFS & Related Fund Spending: FY 1995 To FY 2015
(Dollars in thousands)



*For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into “reserve” accounts, as well as changes to the timing of debt service payments. 1995 through 2013 are actual expenditures; 2014 and 2015 are budgeted expenditures.

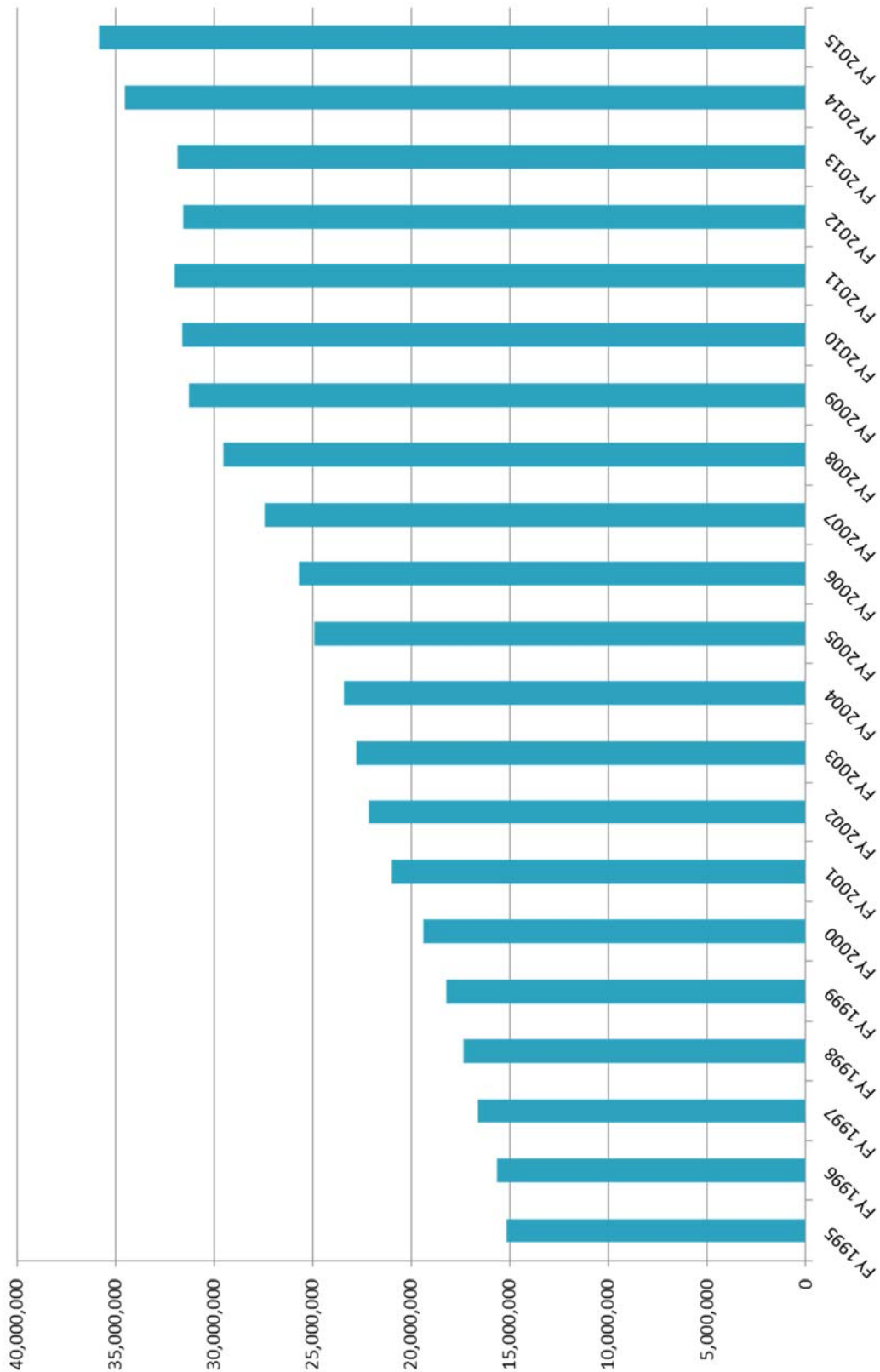
Per Capita NGFS & Related Fund Spending: FY 1995 To FY 2015



* For comparison purposes, adjusted for federal ARRA and related funding, the one-time apportionment delay (between 2009-11 and 2011-13), and certain large one-time appropriations into “reserve” accounts, as well as changes to the timing of debt service payments. 1995 through 2013 are actual expenditures; 2014 and 2015 are budgeted expenditures.

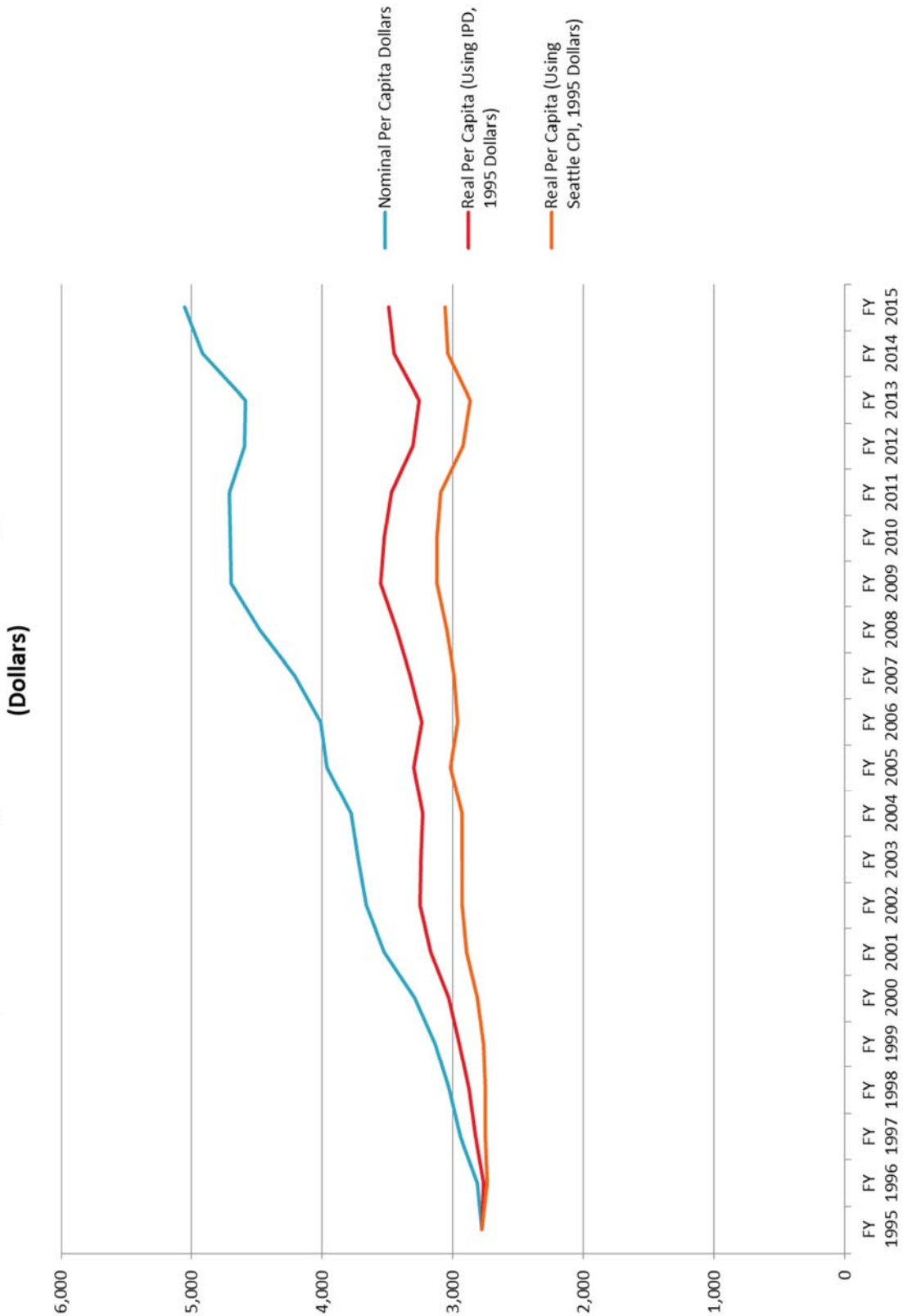
Total Budgeted Funds Spending: FY 1995 to FY 2013

(Dollars in thousands)



*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into “reserves”. 1995 through 2013 are actual expenditures; 2014 and 2015 are budgeted expenditures.

Per Capita Total Budgeted Funds Spending: FY 1995 to FY 2015



*Omnibus Operating Budget only (excludes Transportation Budget Appropriations). Adjusted to reverse the apportionment payment and certain one-time appropriations into “reserves”. 1995 through 2013 are actual expenditures; 2014 and 2015 are budgeted expenditures.

A Brief History of the Budget (With Apologies to Stephen Hawking)

2001-03 Biennium

The 2001-03 budget adopted in 2001 was \$25.1 billion Near General Fund-State (the final 1999-01 budget was \$22.6 billion). As the Legislature deliberated in 2001, revenue was forecasted to grow a modest 3.8% over the previous biennium. (Average revenue growth historically has been about 9% per biennium.) The maintenance level budget, the cost to continue existing state services, was \$1.6 billion above the previous budget, due in large part to increased health care costs and the passage of I-728 (\$470 million for the biennium) and I-732 (\$348 million for the biennium). Responding to the Nisqually earthquake was also a consideration for the 2001 Legislature.

The 2002 Legislature faced a significant budget challenge in the 2001-03 budget from reduced revenue (9/11 and other economic related issues) and increased caseload related costs in K-12 and health care. In the 2002 Supplemental Budget, the Legislature addressed an approximately \$1.5 billion shortfall (\$1.2 billion in revenue forecast reductions and \$300 million in additional costs) by:

- Making budget reductions of \$332 million;
- Increasing ongoing revenue by \$88 million;
- Selling a portion of the state's tobacco settlement generated \$450 million for deposit into the general fund;
- Transferring \$325 million from the Emergency Reserve Account to the general fund; and
- Using \$303 million of budget reserves.

In the 2003 Supplemental Budget for the 2001-03 biennium, appropriations were increased by \$130 million GF-S. The final biennial appropriations level was \$24.6 billion.

2003-05 Biennium

In the 2003 session, the 2003-05 maintenance level budget, the cost to continue existing state services into the new biennium, was \$1.2 billion higher than available forecasted revenue. When a shortfall in the Health Services Account and other items are added, the budget problem rises to \$2 billion. The Legislature solved the budget problem by:

- Approximately \$1.3 billion in budget reductions to maintenance level in all areas of the budget;
- \$131 million in new revenue;
- \$237 million in I-728 modifications;
- \$78 million in additional nursing home fees; and
- \$302 million in various transfers.

The enacted budget appropriation level was \$25.1 billion NGF-S.

In 2004, revenue was stronger than expected, and with \$62 million in fund transfers, the 2004 Supplemental Budget increased the appropriation level for 2003-05 by \$190 million NGF-S. The expected GF-S ending fund balance was \$279 million.

The 2005 Supplemental Budget increased appropriations for 2003-05 by \$314 million NGF-S.

2005-07

Revenue was forecasted to increase by \$1.6 billion (7%) for the biennium, while the maintenance level budget increased by \$2 billion; the Legislature chose to fund a number of policy enhancements (COLAs, additional higher education capacity, etc.), resulting in a total increased projected spending level of \$3.4 billion, \$1.8 billion above projected revenue. The Legislature addressed this by:

- Increased revenue of \$482 million (including revenue going into the new Education Legacy Trust Account from the re-enacted estate tax and an increase to the cigarette tax);
- Budget reductions of \$557 million; and
- Using \$774 million of fund balances, fund transfers, and budget driven revenue.

The maintenance level cost increases were primarily driven by medical assistance (over \$650 million), pensions (\$513 million), and K-12 student enrollment (\$354 million). One of the policy level items was \$306 million for negotiated collective bargaining agreements; 2005-07 was the first biennium for consideration of these agreements under the new law.

Revenue increased \$1.4 billion from March 2005 (forecast used to develop the 2005-07 biennial budget) to February 2006 (forecast used to develop the 2006 supplemental). The 2006 Supplemental Operating Budget increased NGF-S appropriations by \$1.3 billion, including setting aside \$350 million to the new Pension Funding Stabilization Account, \$275 million to the Student Achievement Account, and \$200 million into the Health Services Account for future use.

The 2007 Supplemental Budget increased biennial appropriations by \$541 million NGF-S, with all but \$16 million being set aside for use in the 2007-09 biennium.

2007-09

Forecasted revenues continued to be stronger than anticipated going into the 2007 session, primarily due to the construction and real estate sectors. The 2007-09 biennial budget appropriation level was approximately \$3.1 billion more than the final 2005-07 budget, about \$1 billion in maintenance level increases and \$2.1 billion in net policy enhancements. Approximately half of the policy enhancements went for early learning and K-12 public schools. \$440 million went to increasing enrollments and financial aid, among other things, in higher education.

The 2008 Supplemental Budget increased the biennial NGF-S appropriations by \$103 million and left \$850 million in reserves (GF-S and Budget Stabilization Account).

Economists determined that the recession officially began in December 2007, although unemployment did not significantly begin to increase in Washington State until June 2008. In 2008 and March 2009, negative revenue forecast changes reduced the FY 2009 and biennial 2009-11 revenue forecasts by a combined \$5.7 billion.

The 2009 Supplemental Budget shortfall facing the 2009 Legislature was \$1.7 billion for the last six months of FY 2009. Three bills enacted during the 2009 session made the 2009 supplemental changes to the 2007-09 biennial budget (ESHB 1694 - relating to fiscal matters,

ESSB 5460 - relating to administrative costs of state government, and a portion of ESHB 1244 - the operating budget). The supplemental changes including use of federal stimulus funds from the American Recovery and Reinvestment Act (ARRA) of about \$900 million, budget reductions of about \$300 million, and fund transfers (including the Budget Stabilization Account) of about \$500 million, leaving an ending GF-S fund balance of \$595 million (plus \$31 million in the Budget Stabilization Account).

2009-11

The March 2009 revenue forecast for 2009-11 was \$30.4 billion. The NGF-S maintenance level budget was \$37 billion, \$6.6 billion above the forecasted revenue for the biennium. This, in addition to \$300 million in policy additions and leaving \$500 million in unrestricted reserves, meant the 2009 Legislature faced a 2009-11 budget problem of approximately \$7.4 billion. The Legislature addressed this by:

- Using \$2 billion in federal stimulus (ARRA);
- Making \$3.6 billion in maintenance level budget reductions;
- Using \$700 million in capital budget funds;
- Modifying pension laws saved \$450 million; and
- Fund transfers and revenue enhancements.

\$739 million was left in reserve (GF-S and Budget Stabilization Account projected ending balances).

After the 2009 session, revenue declined by about \$1.8 billion. The 2010 Legislature faced a \$2.8 billion budget problem when maintenance level increases (\$660 million) and policy additions adopted by the Legislature (\$369 million) are added to the reduced revenue. The Legislature addressed this in the 2010 supplemental by:

- \$618 million in additional federal funds;
- \$721 million in maintenance level budget reductions;
- \$761 million in various revenue increases; and
- \$690 million in fund transfers and use of reserves.

After the 2010 session, forecasted revenue declined by \$1.4 billion total in the June and November forecasts, leaving a \$1.1 billion budget problem for FY 2011 when maintenance level changes are included. In a one day special session on December 11, the Legislature enacted \$490 million in reductions (including \$208 million using federal education jobs funding), \$54 million in fund transfers, and \$44 million in budget driven and other revenue, cutting the FY 2011 shortfall in half. After the December 11, 2010 special session, there remained a budget problem of about \$538 million in FY 2011 to be solved by the 2011 Legislature.

2011-13

As the Legislature began to craft the budget for the 2011-13 biennium, the estimated cost of continuing the current and statutorily required programs into the 2011-13 biennium was about \$3.7 billion more than projected revenues. The 2011-13 biennial budget problem increased further when \$424 million in additional policy costs were included, such as repaying the delayed June 2011 K-12 apportionment payment, beginning the new education funding formula, increasing the State Need Grant to keep pace with assumed increases in tuition, and leaving projected reserves of \$741 million (\$282 million of which was in the Budget Stabilization Account). The budget problem statement for the 2011-13 biennium of about \$5

billion was addressed through policy level reductions of approximately \$4.5 billion and through fund transfers and resource changes.

After the 2011-13 budget was enacted in May 2011, projected revenues for that biennium declined by another \$2.2 billion. As of the November 2011 revenue forecast, the \$741 million in ending reserves for the 2011-13 biennium had become a negative \$1.4 billion.

In a total of four legislative sessions from November 2011 through April 2012, the Legislature took actions that cumulatively improved the budget situation by approximately \$1.7 billion, leaving projected reserves of \$311 million (\$265 million in the Budget Stabilization Account, and \$46 million in Near General Fund-State). Legislative actions taken included reducing Near General Fund-State appropriations by approximately \$1 billion. Revenue-related legislation was projected to increase Near General Fund-State resources by a net of \$228 million. (\$144 million from redirecting existing revenues into the state general fund, \$51 million from changes in the administration of unclaimed property, and \$33 million from a variety of other actions). Finally, Near General Fund-State resources were also increased by a net of \$372 million as a result of fund transfers and an adjustment to working capital reserve.

2013-15

The Legislature entered the 2013 session with a slowly improving economy, rising caseload and per capita costs, as well as other fiscal issues to consider including how to address the state Supreme Court's McCleary decision (K-12 funding). In the 2013-15 biennium, the cost of continuing current programs and complying with current laws exceeded forecasted revenue by approximately \$800 million. This is sometimes referred to as the maintenance level shortfall.

The operating budget for 2013-15 included \$1.7 billion in additional policy enhancements (\$1.03 billion of that in K-12 education). Taken together with leaving an ending fund balance and the maintenance level shortfall, the combined budget problem statement was approximately \$2.47 billion.

The budget addressed this budget problem statement through:

- Fund transfers and revenue redirections of \$519 million;
- Reduced spending of about \$1.55 billion;
- Assumed reversion of \$140 million; and
- Increased revenue of \$259 million (primarily Bracken and telecommunications).

The budget left \$630 million in projected total reserves (\$53 million in NGF-S + Opportunity Pathways ending fund balances and the remainder in the Budget Stabilization Account).

The legislature met in a November 2013 special session and adopted ESHB 2088 which appropriated \$10 million for various aerospace related training activities, and enacted ESSB 5952 relating to tax preferences for the aerospace industry.

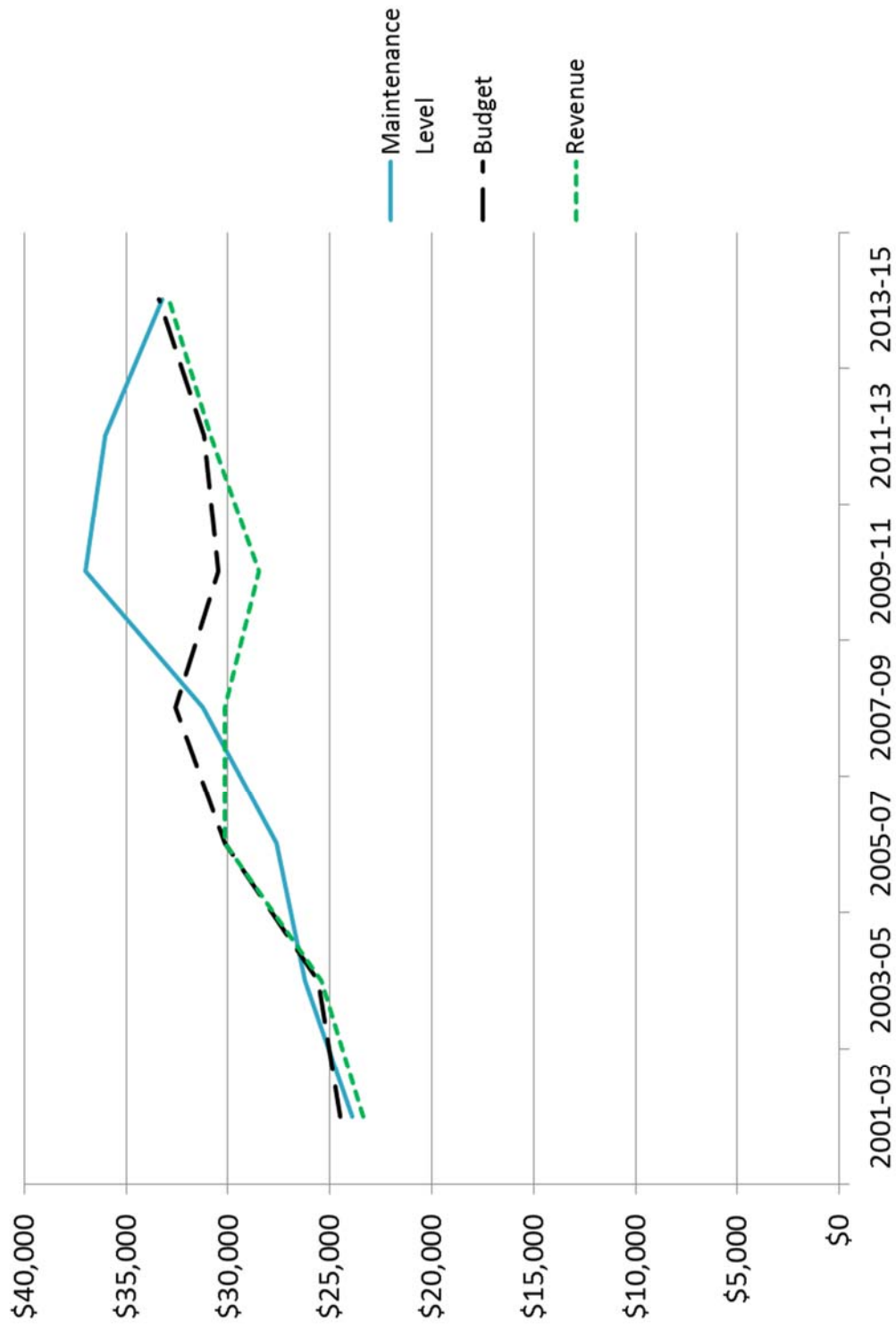
Going into the 2014 session, the legislature experienced a better budget situation than the previous session for the first time in several years. The revenue forecast increased since the Legislature finished at the end of June, resulting in projected ending total reserves of \$960 million (\$379 million in NGF-S + Opportunity Pathways and the remainder in the Budget Stabilization Account). By the time the Legislature wrote the 2014 supplemental operating

budget, the total surplus had increased \$1.02 billion, primarily from the February revenue forecast update.

The enacted 2014 supplemental budget addressed an increase in net maintenance level costs (caseloads and federal match rate adjustments) of \$89 million, and a net policy level increase of \$66 million (Governor vetoes reduced this to \$63 million.) There were a few small resource changes as well. The NGF-S + Opportunity Pathways ending fund balance for 2013-15 was projected to be \$292 million, with total reserves of 878 million.

Revenue and Budget Biennial History since 2001

Near General Fund-State (\$ in millions)



Note: Revenue is the biennial collections except that 2013-15 revenue is based on the June 2013 forecast. The budget is the final biennial budget (after supplementals) except that 2013-15 is the original budget. Maintenance level is based on the original biennial budget.

Functional Areas

Overview

State agencies have traditionally been categorized into one of several functional areas for budgeting purposes. While appropriations are made to specific agencies rather than to functional areas, functional areas provide a useful tool for understanding the allocation of state resources and analyzing trends. Functional areas currently used in the operating budget include:

- Legislative includes the state House of Representatives, the Senate, and other legislative agencies. Judicial includes the Supreme Court, the Court of Appeals, and other state judicial agencies. Governmental operations includes most of the state-wide elected officials and a conglomeration of agencies that do not fit neatly into the other functional areas. The largest governmental operations agencies are the Department of Commerce, Department of Enterprise Services, and the Department of Revenue.
- Health and Human Services includes those agencies charged with serving the health and safety needs of the state's population, such as the Health Care Authority and the Departments of Social and Health Services, Corrections, Veterans Affairs, and Health.
- Natural Resources includes those agencies responsible for overseeing environmental quality or resources efforts (e.g., Department of Ecology and Department of Fish and Wildlife), promoting outdoor recreational opportunities (e.g., State Parks and Recreation Commission), and managing state lands and waters for resource production and other benefits (e.g., Department of Natural Resources).
- Transportation is part of the Washington State Patrol and the Department of Licensing. The majority of these agencies' budgets are appropriated in the Transportation Budget.
- Public Schools is state support for public schools, including the Office of the Superintendent of Public Instruction and funds apportioned to local school districts. Other Education includes the Department of Early Learning, the state historical societies, the state schools for deaf and blind children, the Washington State Arts Commission, and the Workforce Training and Education Coordinating Board.
- Higher Education includes support for the state's six four-year institutions and the 34 colleges that make up the community and technical college system, as well as financial aid through the Student Achievement Council.
- Special Appropriations includes debt service on state bonds (issued for capital budget projects and programs), sundry claims, special appropriations to the Governor, LEOFF and Judicial pensions, and various adjustments. Global items, things that apply to all of state government such as pensions and health care benefits, typically are considered as one item during budget discussions and then distributed among the state agencies in the budget itself or the allotment process.

GENERAL GOVERNMENT

General Government/Governmental Operations

General government agencies include legislative agencies, judicial agencies, and a number of executive agencies. This section will highlight a few of the larger general government executive agencies.

The Office of the Attorney General (AG) - The AG serves as legal counsel to state agencies and higher education institutions, and represents the state when it is sued. The office also assists local prosecuting attorneys in some investigations and prosecutions. The AG includes a Consumer Protection Division, Anti-Trust Division, Medicaid Fraud Unit, and the Public Counsel Section (which represents the public in utility rate cases). Approximately 9% of the AG's operating budget is appropriated directly to the AG from GF-S, but a significantly larger amount of GF-S moneys are appropriated to state agencies which then pay the AG for legal services. About half of the direct GF-S appropriation is for actions related to civil commitment of sexually violent predators and one-quarter for consumer protection activities. Three-quarters of the AG's 2013-15 total budget of \$244 million is for legal services to state agencies.

Office of the State Auditor - The Auditor conducts financial audits of state agencies and local governments. The Auditor also administers the State Employee Whistleblower Act. Legislation and Initiative 900 give the Auditor authorization to conduct performance audits of state agencies and local governments. About 58% of the Auditor's 2013-15 total budget of \$76 million is for local government audits, about 11% is for state agency audits, and about 22% goes for performance audits.

Office of the Secretary of State - Primary duties include supervising state and local elections, filing and verifying initiatives and referendums, producing the state voters pamphlet, registering corporations and charities, and managing the State Archives. The State Library and TVW are also funded through the Secretary of State's office. About 22% of the Secretary of State's 2013-15 total budget of \$82 million is related to library services, about 25% is related to elections, and about \$17 million is related to registering businesses and charities.

Office of the State Treasurer - The Treasurer is the primary administrator of the state financial resources as directed by the Legislature. The Treasurer administers issuance of bonds and payment of state debt (the agency provides staff assistance to the State Finance Committee and the Treasurer serves on the committee). The Treasurer also manages state funds and accounts and payment of warrants. The Treasurers total budget for 2013-15 is \$15 million.

The Department of Commerce - Formerly the Department of Community, Trade, and Economic development (CTED), its name was changed in 2009 (ESB 2242) and mission refocused in 2010 (2SHB 2658). Six divisions providing services were consolidated into four: (1) Local Government and Infrastructure; (2) Community Services and Housing; (3) Office of Economics Services and Competitiveness (includes the State Energy Office); and (4) External Relations. In restructuring the department, a number of programs and services were transferred to other state agencies. Commerce's 2013-15 total budget is \$520 million, with about 16% for community development and services, 40% for homeless and affordable housing assistance, 14% for low income energy (heating) assistance, 10% for crime victim assistance, and 8% for business and economic development.

The Department of Financial Institutions (DFI) and the Office of the Insurance Commissioner (OIC) - These agencies oversee the financial and insurance industries in Washington State. The DFI focuses on state chartered banks and credit unions, securities transactions, and regulates a variety of other consumer lending/financial industries and services. DFI's total budget for 2013-15 is \$48 million. OIC focuses on supervision of insurance

companies, insurance rates and forms, and consumer protection. The OIC's total budget for 2013-15 is \$55 million.

The **Military Department** - Houses the Washington Army National Guard, the Washington Air National Guard, the State Emergency Management Division, and coordinates homeland security for the state. The Military Department's 2013-15 total budget is \$295 million, about 56% for disaster preparedness, response, and recovery and about 18% goes for enhanced 911.

The **Department of Revenue (DOR)** - DOR is the state's principle tax collection agency, collecting most general fund tax revenues and all local sales tax revenues. In addition to providing a variety of services related to taxes and revenue, DOR handles unclaimed property in Washington. DOR's 2013-15 total budget is \$252 million.

The **Department of Enterprise Services (DES)** – DES was created in 2011 by merging the former Department of General Administration and the State Printer, part of the former Department of Information Services (with part becoming the office of the Chief Information Officer in the Office of Financial Management and part becoming Consolidated Technology Services), and part of the Office of Financial Management (contracts and statewide vendors, risk management, and small agency client services). The DES 2013-15 total budget is \$453 million.

DES services include:

- Information Technology, printing, and communications support;
- Development and management of contracts for goods and services throughout the state;
- Employee services and human resource support including: Management of the state's central payroll system, training, the Employee Assistance Program, services for small agencies and recruitment services;
- Management of the state's risk-management program;
- Oversight of public facilities and statewide public works projects, provides guidance for long-term design and maintenance of public facilities, and negotiates and manages leases on behalf of state government; and
- Manage and operate the state's mail delivery, motor pool, and surplus programs.

The **Office of the Chief Information Officer** was created in the Office of Financial Management, and is primarily responsible for statewide technology policy and standards.

Consolidated Technology Services operates the State Data Center and the data center located in Office Building 2, and offers the following IT services to state and local governments and tribes: mainframe computing, network operations and telecommunication, shared e-mail, IT security, and storage. CTS' 2013-15 total budget is \$230 million.

Central Services Revolving Funds

There are a number of services provided by a single general government agency to state government in general or a significant number of agencies. These services are budgeted using a central services cost allocation system, where there is an appropriation made for the state agency providing the central service and an appropriation in each agencies receiving the service. The receiving agency pays the central service agency for the service. All of the agency's fund sources are used proportionally to pay for the central service. Very roughly, the GF-S portion of services is about 50%. The central services revolving funds include:

- Data Processing Revolving Account (primarily IT and telecom services/software/equipment through DES)
- Enterprise Services Account (primarily master contracting, fleet, consolidated mail, facilities, building and grounds, printing, real estate services, energy services, and small agency services through DES)
- Legal Services Revolving Fund (legal services through the Attorney General)

- Risk Management Revolving Account (primarily for costs related to liability, property and vehicle claims, settlements and judgments, and the purchase of insurance through DES.)

EARLY LEARNING

Overview

State early learning and child care programs are found primarily in the Department of Early Learning (DEL) and Economic Services Administration in the Department of Social and Health Services (DSHS). DEL's primary responsibilities are administering the Early Childhood Education and Assistance Program, licensing child care providers, and setting policy for child care subsidies. While DEL is the lead agency for the Working Connections Child Care (WCCC) program, DSHS provides eligibility determinations for WCCC and pays providers.

Major programs/services

- Early Childhood Education and Assistance Program (ECEAP) – ECEAP is the state funded preschool program that incorporates child health and family engagement services. The program serves 3 and 4 year olds from families below 100% of the federal poverty line, foster children, or children with disabilities. Head Start is similar to the ECEAP but is federally administered and funded. The federal government contracts directly with Head Start providers. Head start funding does not flow through the state budget. There will be approximately 10,091 ECEAP slots in 2015.

In 2010, the Legislature made ECEAP an entitlement for all eligible 3 and 4 year olds (2SHB 2731) by FY 2019. The statute requires that ECEAP be expanded to serve all eligible 3 and 4 year olds by FY 2019. The legislature began adding additional ECEAP slots in 2013 and has discretion over the specific number of slots that are funded each year. The ECEAP caseload forecast estimates needing approximately 22,897 slots by FY 2019. This represents an increase of 12,806 slots above current levels. The cost per slot is currently \$7,579 per year.

- Child care – DEL is responsible for licensing child care centers and family child care homes (about 6,000 centers and homes). Subsidized child care is available through the WCCC program (federally and state funded) for eligible families. DEL is the lead agency for subsidized child care, although eligibility determinations are through DSHS. Funding for child care is in both DEL and DSHS's budgets.

DEL administers the Early Achievers program, Washington's child care quality rating and improvement system. This is a voluntary program for child care and Head Start providers. ECEAP providers are required to participate in Early Achievers. The ratings are on a scale of 1 (lowest) to 5 (highest). Providers rated 3 – 5 can earn an annual bonus award. Ratings will be posted on DEL's website. Providers receive coaching and professional development services through DEL and its partners.

- Other DEL programs and services include:
 - Home visiting – DEL contracts for services to provide family assistance for low-income or at-risk families to promote healthy and safe child development, strengthen parent child interactions, and promote early learning.
 - Early Support for Infants and Toddlers – DEL administers this federal program by contracting with local agencies to coordinate early intervention services for

children aged birth to three with developmental delays. Services include family resources coordination, physical therapy, speech/language therapy, and audiology.

- Washington Kindergarten Inventory of Developing Skills (WaKIDS) - Teachers meet with families at the start of the school year to learn about the student. This provides a snapshot of a child's development at the start of kindergarten. This assessment is required in state-funded full-day kindergarten classrooms.

Budget Summary

- Based on OFM's activity summary for the original 2013-15 biennial budget, here is a breakdown of funding for DEL's major programs:
 - Child care licensing: \$1.1 million NGF-S + Opportunity Pathways; \$29.6 million total budget funds.
 - Child care and early learning quality initiatives (child care resource and referral services, home visitation, quality improvement programs, professional development services for providers, etc.): \$1.3 million NGF-S + Opportunity Pathways; \$54.4 million total budgeted.
 - Child care subsidies (paid through DSHS WCCC program): \$153.7 million total budgeted (federal). Additionally, a total of \$340.7 million of both state and federal funds are in DSHS's budget for WCCC child care subsidies.
 - ECEAP: \$136.7 million NGF-S + Opportunity Pathways.

DEL's 2013-15 operating budget after the 2014 supplemental is \$162.9 million NGF-S and \$321.3 million total budgeted.

K-12 PUBLIC SCHOOLS

Introduction

Under Article IX of the state constitution, it is the state's paramount duty to make ample provision for the education of all children. Article IX also directs the Legislature to provide for a general and uniform system of public schools. To implement the state's basic education duties, the Legislature has established a program of basic education and funding formulas in statute; the duties can also be affected by court decisions, most recently the ruling and orders in *McCleary v. State* (2012).

The state itself does not deliver the program of basic education that it defines and funds. The state has delegated much operational authority to 295 local school districts that are governed by elected school boards. State funding is distributed to local school districts through a variety of formulas and grants, and the local school districts generally decide how those funds are used. State funding is supplemented with federal and local funding (roughly 68% state, 8% federal, and the remainder local and other funds).

Basic Education Programs

Basic Education as Defined in Legislation

To implement the Article IX duty, the Legislature has defined a program of basic education and the funding formulas to support it. The program of basic education, as defined in ESHB 2261 (2009) consists of:

- The instructional program of basic education, which includes specified instructional hours and instruction in the Essential Academic Learning Requirements (EALRs);
- The Learning Assistance Program (LAP) of supplemental instruction and services for underachieving students;
- The Transitional Bilingual Program of supplemental instruction and services for students whose primary language is not English;
- Special education for students with disabilities;
- Programs for highly capable students;
- Transportation to and from school for eligible students; and
- Education programs for students in residential schools, juvenile detention facilities, and adult correctional facilities.

In enacting ESHB 2261, the Legislature consolidated previous statutory and judicial definitions into a single statutory program. ESHB 2261 required implementation of updated basic education funding formulas focusing on a prototypical school model by the 2018-19 school year, and it provided for a new pupil transportation formula to begin by no later than September 1, 2013. ESHB 2261 also added additional school hours and credits to the definition of basic education once the Legislature funded these items.

In 2010, the Legislature enacted SHB 2776, which provided additional specifics for implementation of ESHB 2261's reforms. SHB 2776 adopted a number of numerical values for the prototypical school funding formulas, including allocations for classroom teachers, building-level staff, health and social services staff, and administrative staff for elementary, middle, and high schools. The legislation also added four additional elements to the program of basic education, which must be fully implemented and funded beginning on or before the

2017-18 school year. These are: (1) full day kindergarten; (2) a new formula for materials, supplies, and operating costs (MSOC); (3) enhanced pupil transportation funding; and (4) K-3 class size reductions. (Funding was provided in the 2013-15 operating budget to fully implement the defined transportation formula beginning with the 2014-15 school year)

In 2014, the Legislature enacted E2SSB 6552, which revised the instructional hour requirement that was provided in ESHB 2261 and specified implementation schedules for the revised instructional hours and the opportunity for 24 credits. (Funding was provided in the 2014 supplemental operating budget to fully implement the revised instructional hours and the opportunity for 24 credits)

General apportionment allocations are the chief component of school funding. School districts receive funding primarily based on the number of students (FTEs) and the resources deemed necessary to make a basic education available to those students. The prototypical school funding formula specifies class size; building-level and district wide support staff allocations; allocations for discrete categories of MSOC; and a percentage for central administration.

The funding level is intended to fund at least a minimum instructional program of basic education offered by school districts that includes: at least 1,000 instructional hours as a district-wide average across all grades, to be increased to 1,000 hours in grades 1 - 8 and an average of 1,080 hours in grades 9 - 12; (full day kindergarten to be implemented by 2017-18); 180 school days per year (half-days for kindergarten until full day kindergarten is implemented); instruction in the state EALRs; and an opportunity to obtain 24 credits for high school graduation beginning with the class of 2019 (increased from 20 credits) as provided by the State Board of Education and as authorized by the Legislature.

In addition, the Legislature has enacted statutory funding formulas for the categorical basic education programs: LAP, Transitional Bilingual, Special Education, Transportation, and Highly Capable.

Basic Education in Judicial Decisions

The Legislature enacted this statutory definition against a background of court decisions that interpret the Article IX duty. Principles drawn from these decisions include:

- Under Article IX, it is the responsibility of the Legislature to define and fully fund a basic education.
- The funding duty is placed on the state, and the Legislature may not cause school districts to use local levies to support the basic education program.
- Basic education must be funded from "regular and dependable" resources. Excess levies are not a regular or dependable tax source and may only be used for enrichment programs.
- The Legislature must periodically review and update its definition of basic education, but revisions to the program must be accompanied by an educational policy rationale. The Legislature may not reduce a basic education program for mere expediency or budget reasons.
- Article IX creates a positive right to an educational opportunity, but it does not require the state to guarantee outcomes.

In January 2012, the Supreme Court issued a major education decision, *McCleary v. State* (*McCleary*). In *McCleary*, the court ruled that the state was not adequately funding its definition of basic education, causing school districts to rely on local levies to support the basic education program. The court determined that the Legislature had enacted a "promising reform package" in ESHB 2261 and SHB 2776, which, if fully implemented and funded by the statutory date of 2018, would constitute compliance with the state's constitutional duty. As described below, the court retained jurisdiction over the case to monitor the Legislature's compliance with the ruling.

Initiative 1351

Initiative 1351 was approved by the voters in November 2014. Among other things, the initiative:

- Reduces class size values and increases staffing allocations in the statutory prototypical school funding formula, effective September 1, 2018.
- Requires that funding allocated in the 2015-17 biennium to be no less than 50 percent of the difference between funding as of September 1, 2013 and the funding necessary to support the new statutory class size and staffing allocations.
- Requires full funding of the new statutory class size and staffing allocations by the end of the 2017-19 biennium.
- Limits state funding for the new prototypical class sizes to funding that is proportionate to a school district's demonstrated actual average class size.
- Permits school districts that demonstrate capital facility needs that prevent the class size reductions to use class size reduction funding for school-based personnel who provide direct services to students.

The OFM fiscal impact statement estimates the cost at full implementation to be approximately \$1.9 billion per school year in addition to the funding necessary to support class size reductions required by SHB 2776. OFM's estimate for the 2015-17 biennium is \$2.04 billion. The estimates will change if different implementation assumptions are made.

Non-Basic Education Programs

In addition to funding mandatory basic education programs, the state funds a variety of non-basic education programs. These include:

- Local Effort Assistance (LEA) - Because of uniformity concerns, a district's local levy revenues are limited to a percentage of the district's state and federal revenues. For districts with low assessed property values (and thus high tax rates), the LEA helps equalize local tax rates.
- Other non-basic education programs, such as I-732 COLAs (suspended for 2009-11, 2011-13, and 2013-15), and a variety of education reform programs.

Current Developments/Issues

- ***Implementing McCleary.*** In its January 2012 *McCleary* ruling, the state Supreme Court took the unusual step of retaining jurisdiction over the case in order to monitor legislative compliance with meeting funding requirements. To respond to the Court's decision and provide a means for the Legislature to better participate in an inter-branch dialog, a Joint Select Committee on Article IX Litigation was created (HCR 4410). In

a July 2012 order, the Court exercised its continuing jurisdiction by requiring the Joint Select Committee to report to the court at least annually on legislative progress toward implementing ESHB 2261, with judicial review focusing on whether the state has demonstrated "steady progress." The committee made its initial report to the Supreme Court on September 17, 2012 and its second report on August 29, 2013. These can be found at: <http://www.leg.wa.gov/jointcommittees/efTF/Pages/default.aspx>.

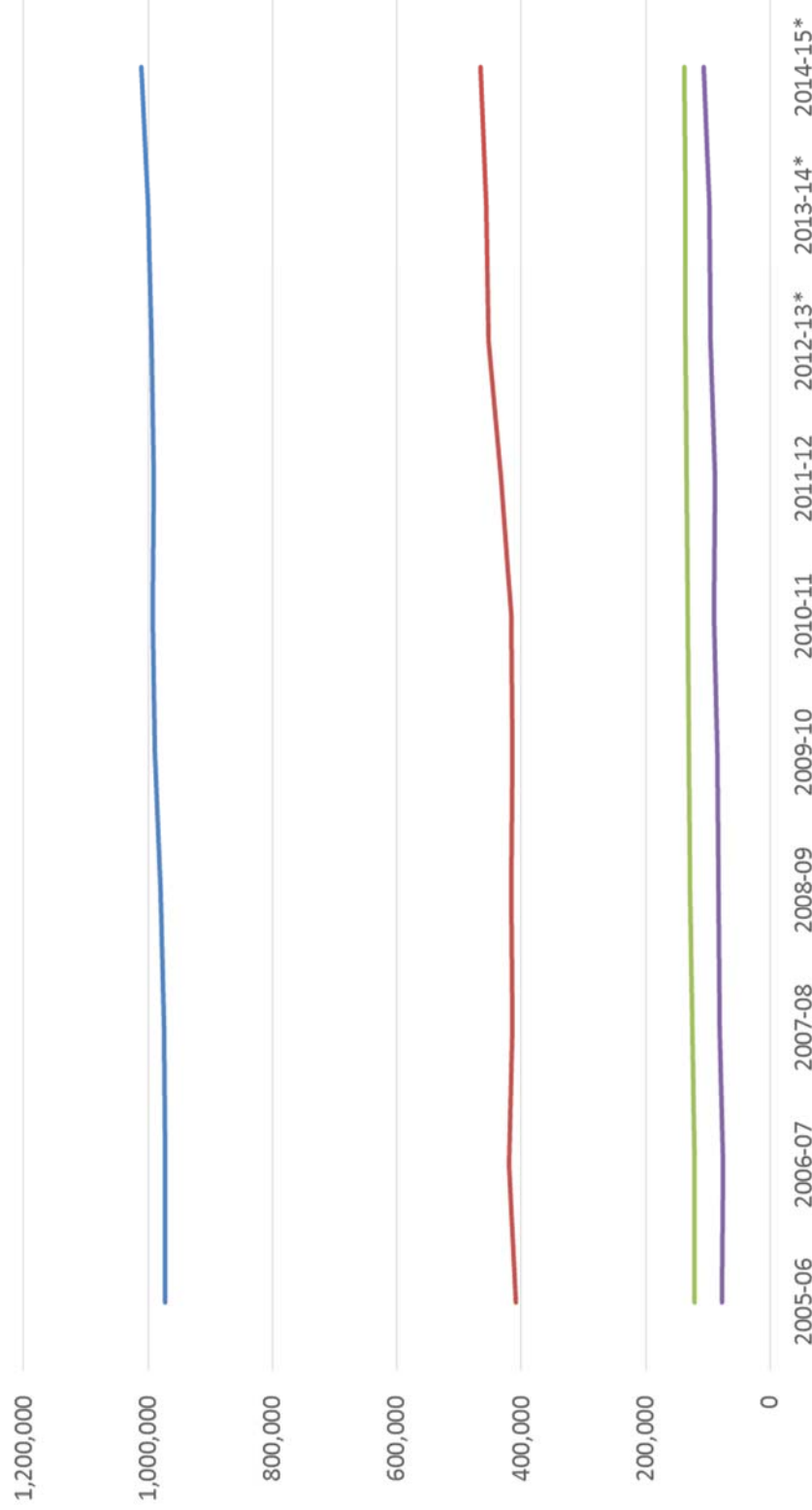
On January 9th, 2014, the Supreme Court issued an order in response to the Legislature's August 2013 report and plaintiff's response. The court ordered the Legislature to file a complete plan by April 30, 2014 fully implementing its program of basic education. The Legislature filed a report with the court after the 2014 legislative session, but did not formally enact a plan in response to the court's January order. The court held the state in contempt for not filing the plan but postponed sanctions until adjournment of the 2015 Legislative Session. Documents related to the McCleary case can be found at: http://www.courts.wa.gov/appellate_trial_courts/SupremeCourt/

Charter Schools. Initiative 1240 was enacted by the voters in November 2012 and took effect in December 2012. Among other things, it: (1) authorizes up to 40 charter schools over a five year period; (2) defines charter schools as tuition-free public schools within the state system of common schools; (3) specifies the nature, powers and responsibilities of charter applicants, charter school boards, and charter authorizers; (4) requires that only qualifying nonreligious and nonprofit organizations may operate a charter school; (5) outlines minimum content for charter applications and charter contracts based on a performance framework; (6) requires the State Board of Education to approve and oversee charter authorizers; and (7) provides for the allocation of state funds to support charter schools and exempts them from most state laws pertaining to other public schools. The Charter School Commission was created in the Office of Financial Management to administer the charter schools program under the initiative. In 2014, the Washington State Charter School Commission was made a small agency, funded in part by the Charter School Oversight account.

The initiative is currently being litigated in court. In December 2013, King County Superior Court upheld the initiative on all challenges (at least as far as facial challenges) except the court held that charter schools are not "common schools." This means charter schools, under the Superior Court's ruling, are not eligible for state school construction matching funds and may not receive funding allocations from the state property tax. The state property tax is less than one-third of state funds apportioned to school districts each year. The case has been appealed to the state Supreme Court and arguments were heard by the court in October 2014.

2013-15 Basic Education Programs		
Engrossed Substitute Senate Bill 6002		
<i>(Dollars in Millions)</i>		
General Apportionment (RCW 28A.150.260)*	\$11,366.9	76.3%
Special Education (RCW 28A. 150.390)	\$1,482.4	9.7%
Transportation (RCW 28A.160.150)	\$792.6	4.4%
Learning Assistance Program (RCW 28A.165)	\$409.6	1.9%
Bilingual (RCW 28A.180)	\$207.9	1.2%
Highly Capable (RCW 28A.185)	\$19.2	0.1%
Institutions (RCW 28A.190)	\$27.9	0.2%
Subtotal: Basic Education Programs	\$14,306.5	93.6%
2013-15 Non-Basic Education Programs		
<i>(Dollars in Millions)</i>		
Local Effort Assistance	\$652.3	4.4%
Education Reform	\$217.5	1.2%
OSPI State Office and Education Agencies	\$33.1	0.2%
OSPI Statewide Programs/Allocations	\$21.1	0.2%
Educational Service Districts	\$16.2	0.1%
Food Service	\$14.2	0.1%
Summer Vocational & Other Skills Center	\$0.9	0.0%
Pupil Transportation Coordinators	\$1.8	0.0%
Initiative 732 COLA & Other Comp Increases	\$0.0	0.0%
Subtotal: Non-Basic Education Programs	\$957.2	6.4%
Total - Near General Fund State Funds	\$15,263.7	100.0%
<i>*Students attending school more than full-time (e.g., student FTEs exceeding 1.0 through enrollment at skill centers, running start programs, or similar dual enrollment programs) represent instructional costs not considered a basic education program entitlement within the General Apportionment program.</i>		

Public Schools Workload History



*Estimated

HIGHER EDUCATION

Introduction

Washington has six public baccalaureate institutions (four-year) and 34 public community and technical colleges (two-year). Each institution has a board of trustees or directors appointed by the Governor and confirmed by the Senate. Each of the four-year institutions receives its own appropriation. Branch campus funds are included in appropriation to the main campus. The legislature makes one appropriation to the two-year institutions as a whole. The State Board for Community and Technical Colleges (SBCTC) is then authorized to allocate funds to each of the 34 CTCs individually.

In addition, Washington has approximately 33 private 4-year institutions, several out-of-state institutions authorized to offer courses in Washington, and a number of private career institutions.

Tuition, state support, and financial aid

The two primary sources of funding at public institutions for the cost of instruction are tuition and state support. Beginning in 1999, the legislature set tuition caps for resident undergraduate students in the operating budget. Institutions and the SBCTC were authorized to raise tuition up to but not exceed these caps. Institutional governing boards set tuition rates for all categories of students other than resident undergraduates.

In 2011 (E2SHB 1795), the Legislature gave tuition-setting authority to the four year institutions for all students for eight years (through the 2018-19 academic year). Tuition-setting authority for resident undergraduate students reverts back to the Legislature in the 2019-20 academic year. Tuition for community and technical college students is set by the Legislature in the operating budget.

E2SHB 1795 requires institutions that increase tuition above the tuition increases assumed in the operating budget to remit 5 percent of operating fees back to students in the form of financial aid. Four-year institutions that do not increase tuition beyond levels assumed in the operating budget must remit 4 percent of operating fees in the form of financial aid.

The Legislature also authorized four-year institutions to charge differential tuition for more expensive courses. This authority was originally suspended in the 2012 supplemental operating budget and re-suspended in the 2013-15 operating budget.

Institutions receive direct state support in addition to tuition revenues. This support has decreased as a result of budget reductions and been made up in part with higher tuition. State support currently accounts for approximately 38 percent of the total cost of instruction for the four-year institutions and 65 percent of the total cost of instruction for two-year institutions. Ten years prior, in 2003, state support covered approximately 67 percent of the total cost of instruction for the four-year institutions and 77 percent for the two-year institutions.

The 2013-15 biennial operating budget suspended tuition setting authority for the 2013-14 academic year and assumed no increase in resident undergraduate student tuition for the 2013-14 and 2014-15 academic years. The 2014 supplemental operating budget extended the tuition setting authority suspension to the 2014-15 academic year.

The chart below provides a comparison between current resident undergraduate tuition rates and rates for the 2004-05 academic year (includes only building and operating fees).

Institution	2004-05 Academic Year	2014-15 Academic Year
University of Washington	\$4,770	\$11,305
Washington State University	\$4,745	\$10,874
Central Washington University	\$3,466	\$7,245
Eastern Washington University	\$3,405	\$6,745
Evergreen State College	\$3,468	\$7,258
Western Washington University	\$3,465	\$7,503
Community and Technical Colleges	\$2,313	\$4,000

There are a variety of financial aid programs available to students. The state provided approximately \$683 million from various state funds for financial aid programs during the 2013-15 biennium. The largest of these programs is the State Need Grant (SNG) which accounts for almost 89 percent (\$606.2 million) of all state financial aid funds. This grant provides assistance to students from families with incomes below 70% of the state's median family income. This was increased from 65% of median family income by the 2005 Legislature. A number of smaller programs were temporarily suspended during the 2013-15 biennium due to budget constraints. These included: the Future Teachers Program, Health Professionals Scholarship, Washington Scholars, Washington Vocational Excellence Scholarship, Washington Promise and WICHE. The Washington Student Achievement Council (WASC) is responsible for administering most state financial aid programs. However, the College Success Foundation and SBCTC do administer some state programs as well.

Washington students received approximately \$1.8 billion in need based financial aid during the 2012-13 academic year from state, federal, and institutional sources. Of this, 39 percent was in loans, 60 percent was in grants, and 1 percent was in work-study funds.

Budgeted versus actual enrollments

Institutions of higher education have significant discretion over how they spend the tuition and state funds they receive. The operating budget lists the budgeted enrollments for each institution and the community and technical colleges. Institutions are allowed to enroll more students than are budgeted, referred to as over enrollment. During the 2013-14 academic year, actual enrollments exceeded budgeted enrollments by 12,834 FTEs at the four-year institutions and 4,055 FTEs at the two-year institutions. No additional state support is provided for over enrollments but institutions generate and retain additional tuition revenues.

University of Washington (UW) and Washington State University (WSU)

The two research universities are UW and WSU. In addition to the traditional academic programs, these two schools also focus on research. WSU is budgeted for over \$74.9 million in research for the biennium. Other institutional programs for the UW include two hospitals (The UW Medical Center, owned by the UW, and Harborview Medical Center, owned by King County and managed by the UW); for WSU, a priority is community outreach with roots in its land grant status, primarily through the Cooperative Extension Program and Small Business Development Center.

Comprehensive/regional universities

There are four comprehensive institutions in different regions of the state, Central Washington University (Ellensburg), Eastern Washington University (Cheney), The Evergreen State College (Olympia), and Western Washington University (Bellingham). These four year schools focus on academic/instructional programs. These schools also have community outreach and research programs, but generally on a scale much smaller than the research universities.

Community and Technical Colleges (CTCs)

The 34 CTCs each have their own Board, but, unlike the 4-year schools, their budget is administered by the State Board of Community and Technical Colleges at the state level. CTCs are two-year schools, providing Associate Degrees in Arts and Sciences and transfer programs to allow students to obtain a baccalaureate degree at a four-year institution. CTCs also provide vocational training, basic skills education, workforce education and training, student-funded programs, applied baccalaureate degrees, and community services/contract funded courses.

2013-15 Higher Education Funding Summary (\$ in thousands)

	UW	WSU	CWU	EWU	TESC	WWU	CTCs	WSAC	WTECB	Total
Total Budgeted	6,359,033	1,404,880	325,152	297,749	130,596	368,287	2,592,935	724,990	57,839	12,261,461
NGF+Opportunity Pathways	506,095	348,312	78,328	78,763	41,512	101,969	1,234,634	683,457	3,060	3,076,130
Tuition	944,998	482,484	120,222	139,906	67,493	162,549	652,391	0	0	2,570,043
Hospital Account	1,697,926	0	0	0	0	0	0	0	0	1,697,926
Other: Grants, Contracts, Local	3,210,014	574,084	126,602	79,080	21,591	103,769	705,910	41,533	54,779	4,917,362

Note: Amounts are based on the 2013-15 biennial budget adopted in 2013.

Historical Summary of Selected Higher Education Budget Items

(\$ in millions)

	2001-03	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15
Tuition Revenue	953	1,179	1,351	1,575	1,940	2,530	2,570
% Change from previous biennium		24%	15%	17%	23%	30%	2%
State Support with Fin Aid	2,731	2,750	3,161	3,642	3,275	2,799	3,149
% Change from previous biennium		1%	15%	15%	-10%	-15%	13%
State Financial Aid	264	313	394	472	486	618	683
% Change from previous biennium		19%	26%	20%	3%	27%	11%
State support without Fin Aid	2,467	2,437	2,767	3,170	2,789	2,181	2,466
% Change from previous biennium		-1%	14%	15%	-12%	-22%	13%

NOTE: State support includes NGF-S, Opportunity Pathways, Opportunity Express, ARRA federal stimulus, and selected M&O funding.

Budgeted FTE Enrollments (2nd year of the biennium)

4-year institutions	85,290	97,639	91,686	95,670	92,928	92,907	94,274
2-year institutions	128,222	128,885	133,304	139,237	143,047	139,237	139,237
Total	213,512	226,524	224,990	234,907	235,975	232,144	233,511

NOTE: Budgeted enrollments exclude running start students (for comparability)

HEALTH & HUMAN SERVICES

➤ *Department of Corrections*

Overview

The Department of Corrections (Department) is responsible for the incarceration of felons with sentences longer than one year and for community supervision of offenders sentenced in superior courts who meet the criteria for supervision. In accordance with the 1984 Sentencing Reform Act, the determinate sentencing model provides that offenders are sentenced based on the seriousness level of their crimes and prior convictions (although judges can depart from the standard sentencing range for aggravating or mitigating factors). The Department's operating budget appropriation for the 2013-15 biennium is \$1.7 billion Near General Fund-State (NGF-S).

Confine Felony Offenders

As of September 30, 2014, there are 12 state prisons throughout the state housing 16,699 offenders, with another 689 in work release facilities, 671 in rented local facilities, and zero in rented out-of-state beds, for a total offender population of 18,059. The majority of resources are allocated for custody activities such as transportation of offenders, operation and security of offender housing units, perimeter and access control, and other security related activities. Other items include food, laundry, clothing, and janitorial services. The average annual cost per inmate is approximately \$32,000. Approximately \$1.1 billion NGF-S is expended for confining offenders in 2013-15.

The Department also provides a correctional industries program to help offenders obtain job skills and re-entry programs targeted to reduce recidivism.

Health Care Services for Offenders

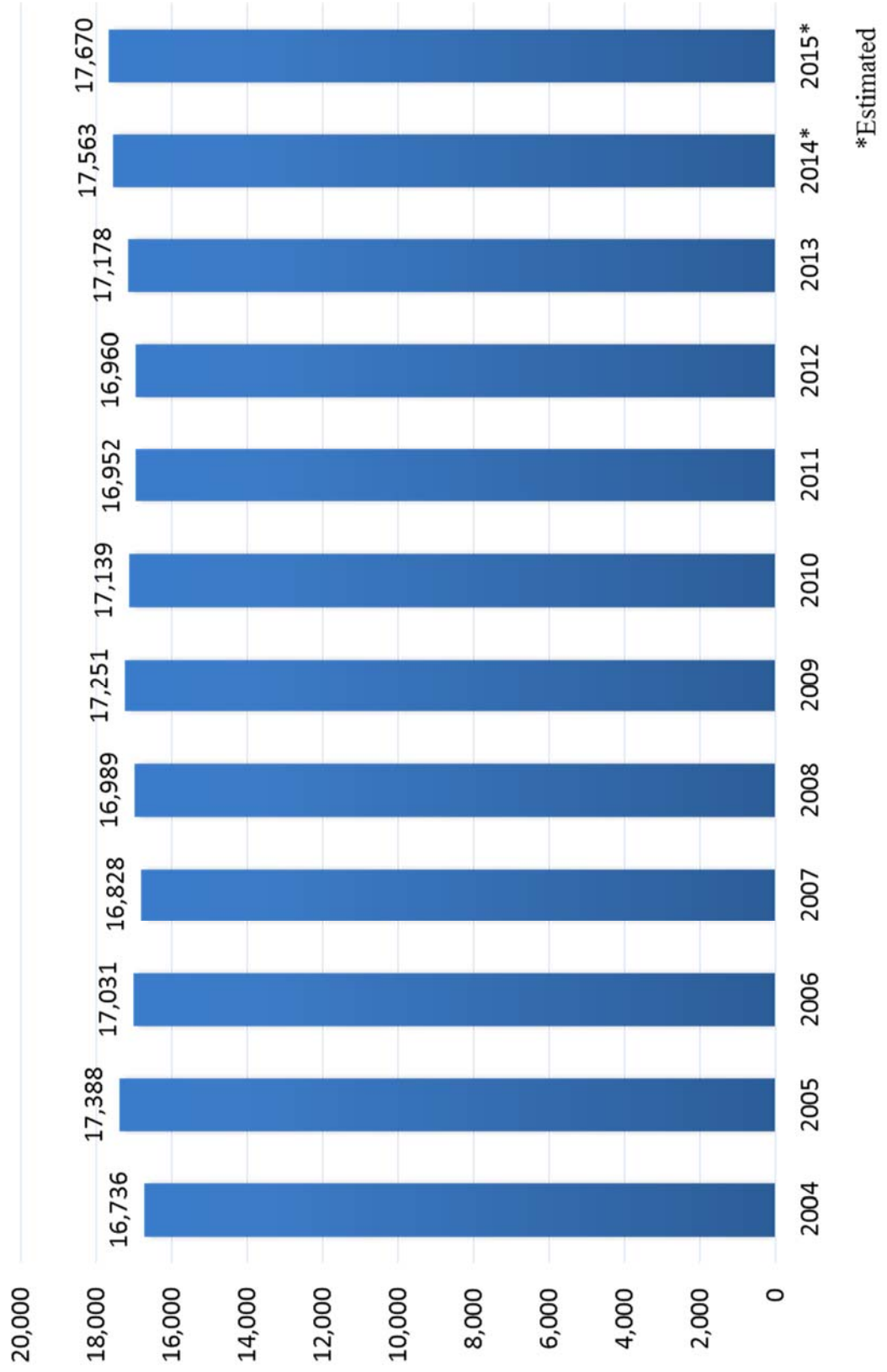
The Department is required to provide medical and dental services for the incarcerated offender population. About \$232 million NGF-S is expended for these services for the 2013-15 biennium.

Supervising Offenders in the Community

The Department monitors felony and certain gross misdemeanor offenders in the community who have been released from confinement and meet the criteria for supervision, or are required to be supervised by court order. The Department uses a validated risk assessment tool to estimate an offender's risk to reoffend. As of September 30, 2014, there were approximately 7,081 offenders on supervision classified as high risk to reoffend with a violent offense, 4,451 offenders classified as high risk to reoffend with a non-violent offense, 2,414 classified as medium risk, and 2,440 classified as low risk to reoffend for a total supervision population of 16,563 (177 are unclassified). About \$277 million NGF-S is for these activities in 2013-15.

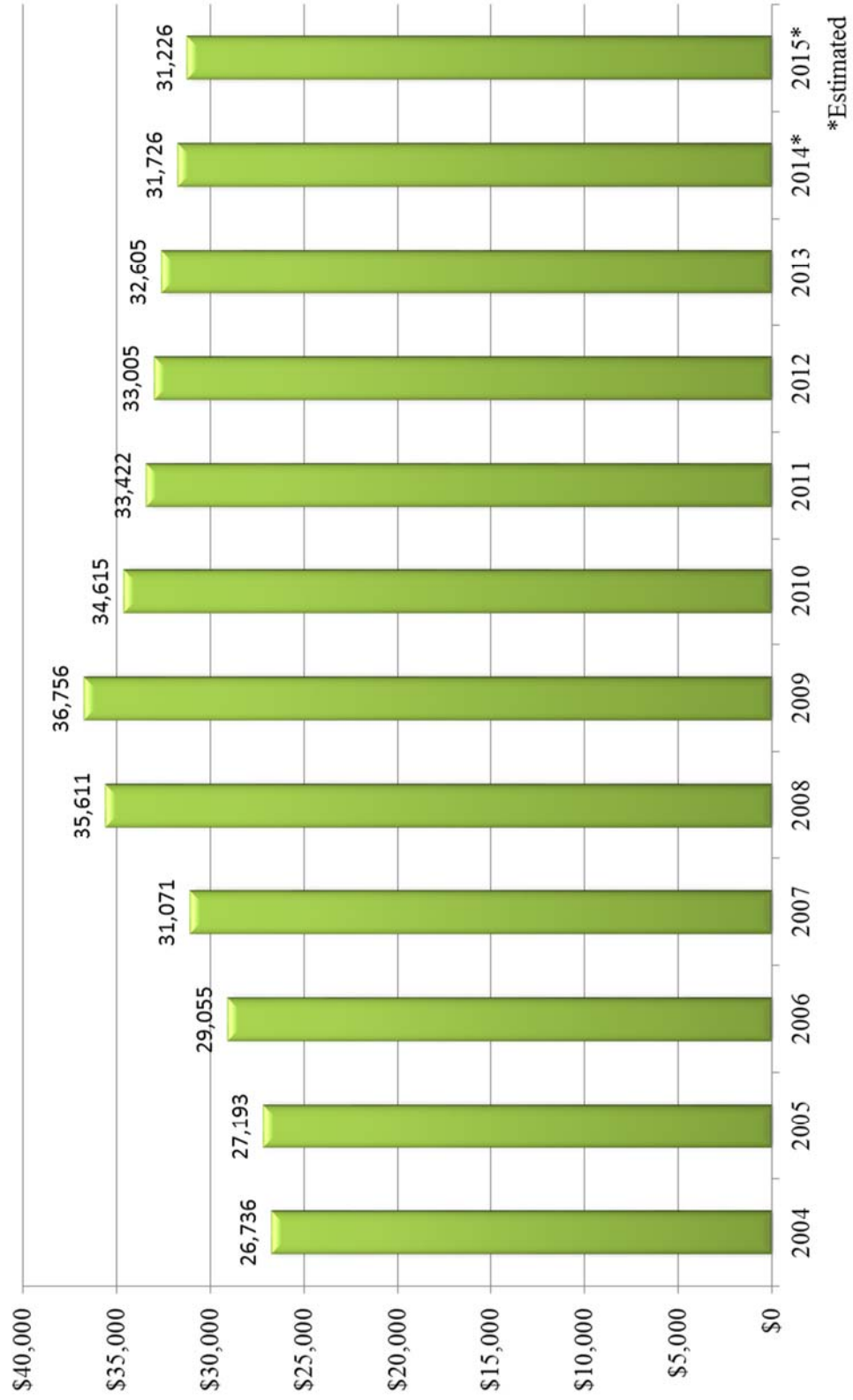
DOC Incarcerated Offenders

Average Daily Population



DOC Incarcerated Offenders

Average Annual Cost Per Inmate



➤ *Department of Social and Health
Services*

Overview

The Department of Social and Health Services (DSHS) is 17% of the Near General Fund-State appropriation for the 2013-15 biennium, and 18% of total budgeted funds. A substantial portion of the DSHS's budget, along with medical assistance in the Health Care Authority, provide health care to low income or qualifying persons, much of it in partnership with the federal government through the Medicaid program. Medicaid services generally are funded half by the federal government and half by the state, although the federal stimulus funding provided an enhanced federal match rate for fiscal years 2009- 2010, and 2011, and the federal Affordable Care Act (ACA) provides an enhanced match rate for certain eligible populations.

DSHS Programs 2013-15

	<u>Near General Fund-State</u>	<u>Total Budgeted Funds</u>
Long-Term Care	\$1.8 billion	\$3.8 billion
Economic Services	\$0.8 billion	\$2.0 billion
Developmental Disabilities	\$1.1 billion	\$2.1 billion
Mental Health	\$0.9 billion	\$1.9 billion
Children & Family Services	\$0.6 billion	\$1.1 billion
Alcohol/Substance Abuse	\$0.1 billion	\$0.4 billion
Juvenile Rehabilitation	\$0.2 billion	\$0.2 billion
Other	<u>\$0.3 billion</u>	<u>\$0.6 billion</u>
DSHS Total	\$5.8 billion	\$12.1 billion

Clients often receive services from a variety of programs. While Medical Assistance was moved from DSHS to the HCA in 2011, medical services are funded in many DSHS programs including Long-Term Care, Developmental Disabilities, and Mental Health. While Children and Family Services focuses on protecting children from neglect and abuse and providing foster care and adoption services, children also receive services through Medical Assistance, Developmental Disabilities, Mental Health, and other DSHS divisions/programs. There are 3 divisions/programs that are primarily non-medical: Children and Family Services, Economic Services, and Juvenile Rehabilitation. Following is a summary of major DSHS activities with an estimate of the 2013-15 budget for that activity by the Office of Financial Management (based on biennial budget adopted in 2013).

Children and Family Services

Family Support Services - Provides services to help children and families safely avoid out-of-home placement such as parent coaching, evidence-based programs, and short-term child care. Services include those provided through Family Assessment Response (FAR), an alternative to investigation for cases screened-in for low to moderate-risk child maltreatment, and voluntary services to help stabilize families. (\$76 million total budgeted for 2013-15, \$55 million NGF-S.)

Foster Care Payments - Provides monthly maintenance payments for children in licensed family foster care and other services to children in out-of-home placement. Services include child care for employed foster parents and supervised visits between children and their birth parents. (\$190 million total budgeted for 2013-15, \$94 million NGF-S.)

Behavioral Rehabilitative Services - Contracts with community agencies for rehabilitation services for children and youth with intensive emotional, behavioral, or medical needs that cannot be met in family foster care. (\$109 million total budgeted for 2013-15, \$75 million NGF-S.)

Adoption Support - Provides monthly maintenance payments for adopted children with special needs, coverage of non-recurring adoption costs, counseling reimbursement, and recruitment of adoptive parents. (\$189 million total budgeted for 2013-15, \$106 million NGF-S.)

Field Staff - Administers child welfare programs throughout the state. Includes case workers who screen referrals of potential child abuse or neglect, respond to screened-in cases of potential child abuse or neglect through investigation or FAR, and manage cases of children in foster care, in adoptive homes, or in voluntary or preventative services. (\$355 million total budgeted for 2013-15, \$177 million NGF-S)

Transitional Services for Youth - Contracts with community-based agencies to provide temporary shelter, needs assessments, and other services to youth who are in conflict with their families, have run away from home or are living on the street, or need assistance developing independent living skills. (\$13 million total budgeted for 2013-15, \$2 million NGF-S).

Victim Assistance - Provides support of community-based shelters, emergency counseling, and legal advocacy to children and families who have experienced domestic violence and/or sexual assault. (\$15 million total budgeted for 2013-15, \$14 million NGF-S).

Division of Licensed Resources - Licenses and monitors foster family homes, group homes, child-placing agencies, and crisis residential centers or overnight shelters for youth. Responds to cases of potential child abuse or neglect of children in licensed out-of-home care. (\$33 million total budgeted for 2013-15, \$20 million NGF-S).

Juvenile Rehabilitation

Institutional Services for Juvenile Offenders - Operates four secure residential facilities for state-committed juvenile offenders. Services focus on rehabilitation and include counseling, academic education, medical and dental services, work activities, and vocational training. (\$98 million total in 2013-15, \$97 million NGF-S.)

Parole Transitional Services for State-Committed Juvenile Offenders - Provides parole services to eligible juvenile offenders released from state commitment. (\$20 million NGF-S in 2013-15.)

Community Facility Transitional Services for Juvenile Offenders - Operates eight group homes for state-committed juvenile offenders who are completing a state disposition and preparing to transition to the community. (\$16 million NGF-S in 2013-15.)

Community Services for Locally-Committed Juveniles - Provides funding to juvenile courts for programs indicated by research to reduce recidivism and be cost-beneficial. Funding is directed towards disposition alternatives and evidence-based, research-based or promising programs for youth on probation who are at a moderate- to high-risk to reoffend. (\$38 million NGF-S in 2013-15.)

Economic Services

Child Support Enforcement - The Division of Child Support (DCS) helps collect child support payments for children. DCS collects and distributes over \$50 million each month in child support payments. (\$278 million total in 2013-15, \$79 million NGF-S.) This is partially offset by the state's TANF share returned by the state (\$154 million total, \$77 million NGF-S).

WorkFirst/Working Connections Programs (Formerly TANF Box) - When the Legislature established the Workfirst program in 1997, practice led to all related revenues being administered as one "TANF box". These are federal Temporary Assistance for Needy Families (TANF), federal Child Care Development Fund (CCDF), state CCDF match, and state TANF funds (called Maintenance of Effort or MOE). Programs included TANF cash grants, Working Connections Child Care, support services, and WorkFirst employment services. The approach to TANF was modified by EHB 2262 in 2012, focusing on transparent tracking of spending for the programs themselves and development of a spending plan based on legislative policy. This basically makes TANF no longer the box it previously was.

Temporary Assistance to Needy Families (TANF) - Provides monthly cash assistance to needy families with children and to low income pregnant women. Eligibility is determined by comparing the family's countable income to the grant payment standard for the applicant's household size. Funding for the program is shared by the state and federal governments. (\$416 million total for 2013-15, \$97 million NGF-S.)

WorkFirst Employment and Training - Provides job search assistance, subsidized employment, job readiness training, basic education, career counseling, and non-salaried work experience to TANF-eligible clients. (\$201 million total in 2013-15, \$44 million NGF-S.)

Child Care Subsidy Program (CCSP) - Helps families with low incomes pay for child care while working or participating in WorkFirst. DSHS staff determine eligibility and authorize child care services for the Working Connections Child Care (WCCC) and Seasonal Child Care (SCC) programs while the Department of Early Learning administers the CCSP. (Total budget is \$395 million for 2013-15, \$158 million NGF-S.)

Supplemental Nutrition Assistance Program (SNAP) - Determines eligibility for federal food stamp benefits. The federal government pays the benefits. (\$148 million total in 2013-15, \$75million NGF-S.)

Medical Eligibility Determination Services –The Economic Services Administration determines eligibility for state and federal medical programs, while the Health Care Authority establishes policy and administers medical assistance programs. Note that this does not reflect medical determination process after implementation of the Affordable Care Act. (\$124 million total for 2013-15, \$41 million NGF-S.)

Aged Blind, or Disabled (ABD) and Pregnant Women Assistance Program - The ABD program provides financial grants to low-income adults who are 65 years or older, blind, or likely to meet Supplemental Security Income (SSI) disability criteria. This also includes the cost of incapacity exams and SSI consultative evaluations. The Pregnant Women Assistance Program provides financial grants to eligible women who are pregnant and ineligible for TANF and State Family Assistance for reasons other than refusing to cooperate with program requirements. (\$66 million NGF-S.)

Long-Term Care

Adult Day Health Community Services - Provides rehabilitative and other services to delay the need for entrance into a 24-hour care setting, or reduce the length of stay in 24-hour care settings. Persons must meet Medicaid eligibility criteria and have a skilled nursing or rehabilitation need. (\$22 million total in 2013-15, \$11 million NGF-S.)

In-Home Services - Medicaid eligible individuals may receive care in their homes through contracted services with Agency Providers (APs) and Individual Providers (IPs). Services include assistance with activities of daily living such as meal preparation, shopping, laundry, housekeeping, and transportation. Services may also include personal care such as eating, bathing, personal hygiene, toileting, and dressing. Other DSHS programs besides Long-Term Care also contract with APs and IPs for services. Additional in-home services include home-delivered meals, nutrition programs, and skilled nursing care. (\$1.7 billion total in 2013-15, \$873 million NGF-S.)

Adult Family Home Community Services - Providers are private homes that may serve up to six residents. They provide room, board, laundry, residential supervision, assistance with activities of daily living, personal care, and nurse delegation services. Some providers also offer skilled nursing or special care. Persons must meet financial and

functional eligibility criteria for either the Medicaid Personal Care (MPC) program or the Community Options Program Entry System (COPES) system waiver. (\$272 million total in 2013-15, \$138 million NGF-S.)

Residential Home Community Services - Providers are licensed to care for seven or more residents. Service settings include Adult Residential Care (ARC), Enhanced Adult Residential Care (EARC), and Assisted Living facilities. Boarding Homes provide shared and private rooms, meal service, some assistance with activities of daily living, some residential supervision, and nurse delegation. Persons must be eligible for MPC or COPES programs. ARCs work with clients who are receiving state-provided adult protective services. EARCs require intermittent skilled nursing and some provide specialized dementia care. (\$187 million total in 2013-15, \$94 million NGF-S.)

Nursing Home Services - Skilled nursing facility health care is provided to Medicaid-eligible persons who need post-hospital recuperative care, nursing services, or have chronic disabilities necessitating long-term habilitation and/or medical services. Nursing homes provide 24-hour supervised nursing care, personal care, therapy, and supervised nutrition. (\$1.1 billion total for 2013-15, \$485 million NGF-S.)

Investigations/Quality Assurance Services - Reviews licensed facilities, staff, and others that come in contact with vulnerable adults requiring provision of appropriate services and quality care (\$84 million total in 2013-15, \$12 million NGF-S.)

Developmental Disabilities

Employment and Day Programs - Provides services to developmentally disabled persons through contracts with county governments. Services from birth to three include specialized therapeutic and educational services. Services for adults include training, placement, and follow-up services to help clients obtain and maintain employment, as well as personal growth programs to help clients participate in community activities. (\$146 million total in 2013-15, \$85 million NGF-S.)

Personal Care - Funding for personal care services for children and adults with developmental disabilities (Title XIX) in their homes, licensed adult family homes, and boarding homes. Assistance is provided for bathing, feeding, and dressing. (\$579 million total in 2013-15, \$289 million NGF-S.)

Family Support Program for Developmentally Disabled Clients - Services are provided primarily by the family or to assist the family in the home, reducing the need for out-of-home residential placement. Services include respite care, attendant care, nursing specialized equipment and supplies, physical therapy, behavior management, and communication therapy. (\$11 million NGF-S in 2013-15.)

Residential Program - Services are provided through contracts with private community providers. These services include residential care, supervision, habilitation training, therapies, medical and nursing care, and recreation. (\$758 million total in 2013-15, \$382 million NGF-S.)

Residential Habilitation Facilities – The state operates four habilitation centers that serve developmentally disabled persons by providing assessment, treatment, training, habilitation programs, and activities. (\$353 million total in 2013-15, \$169 million NGF-S.)

Other programs include:

1. State Operated Living Alternatives (SOLAs) is similar to Residential Services except staffing supports are provided the state employees (\$37 million total in 2013-15, \$19 million NGF-S); and
2. Other community programs including background checks, diversion beds, and crisis intervention services to assist the community in supporting DD clients experiencing a mental health crisis (\$61 million total in 2013-15; \$38 million NGF-S.)

Mental Health

Community Mental Health Services – Medicaid - Provides financial support and program direction for community mental health programs delivered through Regional Support Networks (RSN). Services are provided to Medicaid clients who meet medical necessity standards. Services include outpatient, inpatient, crisis, residential, day treatment, consultation and education, and Medicaid transportation. (\$930 million total in 2013-15, \$412 million NGF-S).

Community Mental Health Services - Non-Medicaid - Provides financial support and program direction to RSNs for community health programs for non-Medicaid eligible persons and for services that do not qualify for funding under Medicaid. These programs provide services for both voluntary and involuntary populations (through the Involuntary Treatment Act). Services are provided within available resources and are similar to the Community Mental Health Services program described above. (\$201 million NGF-S for 2013-15.)

State Mental Health Facilities - State psychiatric hospitals include Eastern and Western State Hospitals and the Child Study and Treatment Center. Services include civil and forensic psychiatric evaluation and treatment for adults with mental disorders at Eastern and Western State Hospitals, and for children and adolescents with severe emotional disturbances at the Child Study Treatment Center. (\$487 million total in 2013-15, \$269 million NGF-S.)

Other Community Mental Health Services - Include Children's Long-Term Inpatient Services (CLIP), the Clark County school project, Community Transition Support Services for former state hospital patients, and federal Mental Health Block Grant programs. (\$45 million total in 2013-15, \$27 million NGF-S.)

Mental Health Services to Jails - Services are provided to offenders with mental health disorders while they are confined in county or city jails. (\$9 million NGF-S in 2013-15.)

Offender Reentry Community Safety Program (formerly the Dangerously Mentally Ill Offender Program) - Provides mental health services for dangerous mentally ill offenders scheduled to be released from state prisons into the community. This is a joint program between the Department of Corrections and DSHS. (\$4 million NGF-S in 2013-15.)

Children's Long-term Treatment Programs (CLIP) - Provides long-term treatment, to children under 18 years of age with severe psychiatric impairment who require intensive services in a restricted setting. There are non-profit CLIP facilities in Tacoma, Seattle, and Spokane; the Child Study and Treatment Center is also considered a CLIP facility (funded under State Mental Health Facilities). (\$14 million total in 2013-15, \$8 million NGF-S.)

Selected recent mental health related lawsuits –

T.R. Litigation (children's mental health) – This was a federal class action lawsuit filed on behalf of all Medicaid-eligible youth. Plaintiffs argued that insufficient intensive services result in unnecessary institutionalization, that the state was not complying with the federal Early and Periodic Screening Diagnostic and Treatment provisions of Medicaid, and that the state was not complying with the Americans with Disabilities Act. The case was originally filed in 2009 and the parties agreed to mediation. A final settlement agreement was filed with the court in August 2013.

The settlement applies to Medicaid youth who are in or at the risk of out-of-home placement. It requires a state-wide screening tool to determine eligibility and requires that eligible youth receive a package of services called Wraparound and Intensive Services (WISe) that includes the following services: intensive care coordination; mobile crisis; and community based services. The agreement calls for a phase-in period of five years across the state.

The Legislature has begun funding the settlement. GF-S costs for 2015-17 are estimated to be \$40 million, with about that same amount in federal funding.

In Re D.W. (single bed certification/hospital "boarding") – The Involuntary Treatment Act requires that detentions under the act are done in certified facilities. DSHS by rule allowed for certain exceptions (called single bed certifications), including an exception for lack of certified beds. The trial court found that patients were being "boarded" in emergency rooms without receiving care. In August 2014, the Supreme Court invalidated single bed certifications solely for a lack of available certified beds in facilities. A motion to stay the decision was granted until December 26, 2014.

DSHS changed its rule requiring that single bed certifications only be used when there is individualized treatment. In the short term, the Governor authorized up to \$30 million GF-S to address this issue and additional IMD beds were arranged in western Washington. Longer term plans for 2015-17 and beyond were proposed in the Governor's 2015-17 operating and capital budget requests, and will be considered by the Legislature in the 2015 session.

Trueblood (jail "boarding") – This is a federal class action lawsuit arguing that the prolonged length of time in jail waiting for competency evaluation or restoration services related to competency to stand trial is unconstitutional in a number of instances. A partial summary judgment was granted in favor of plaintiffs on December 22, 2014; the trial date is set for March 2015. The trial will consider how long individuals can be made to wait in jail for court ordered forensic services. The Governor included enhancements to address this case in his 2015-17 budget proposals, and the Legislature will consider this issue in the 2015 session.

Alcohol and Substance Abuse

Community Based Drug and Alcohol Treatment Services - DSHS contracts with counties and tribes for outpatient treatment services. Counties contract with provider networks in their communities to provide services including assessment, outpatient treatment, triage services including non-hospital detoxification services, outreach, intervention, referral, and opiate substitution treatment. Medicaid matching funds are used to maximize available services. (\$216 million total in 2013-15, \$73 million NGF-S.)

Residential Drug and Alcohol Treatment - Residential treatment services are provided to indigent and low-income individuals and their families who are experiencing a range of abuse and addiction problems. (\$100 million total in 2013-15, \$47 million NGF-S.)

Other Programs

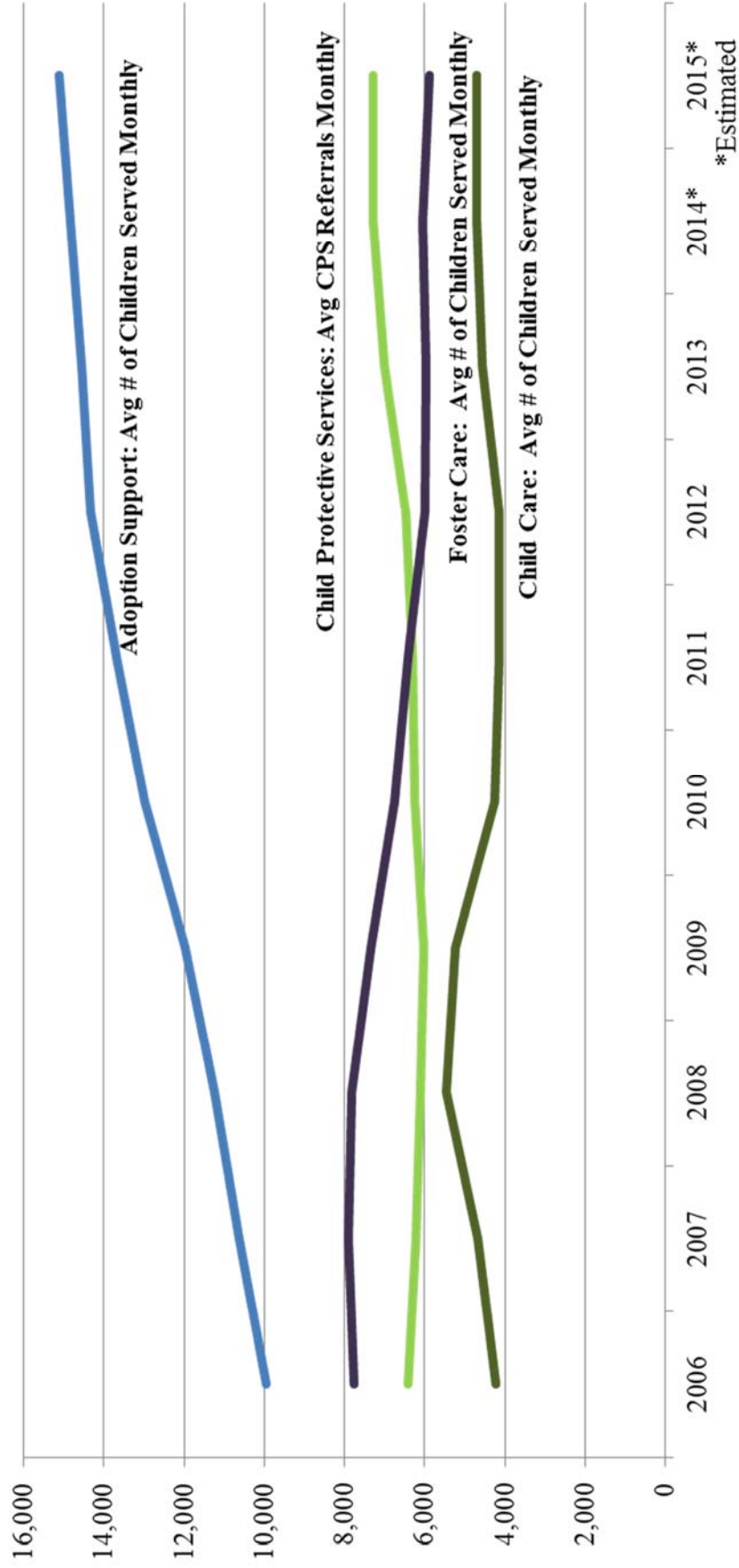
Other programs include various administrative/support services, vocational rehabilitation, and the Special Commitment Center..

Vocational rehabilitation includes counseling and guidance (\$62 million in 2011-13) and direct client services (\$59 million in 2013-15.)

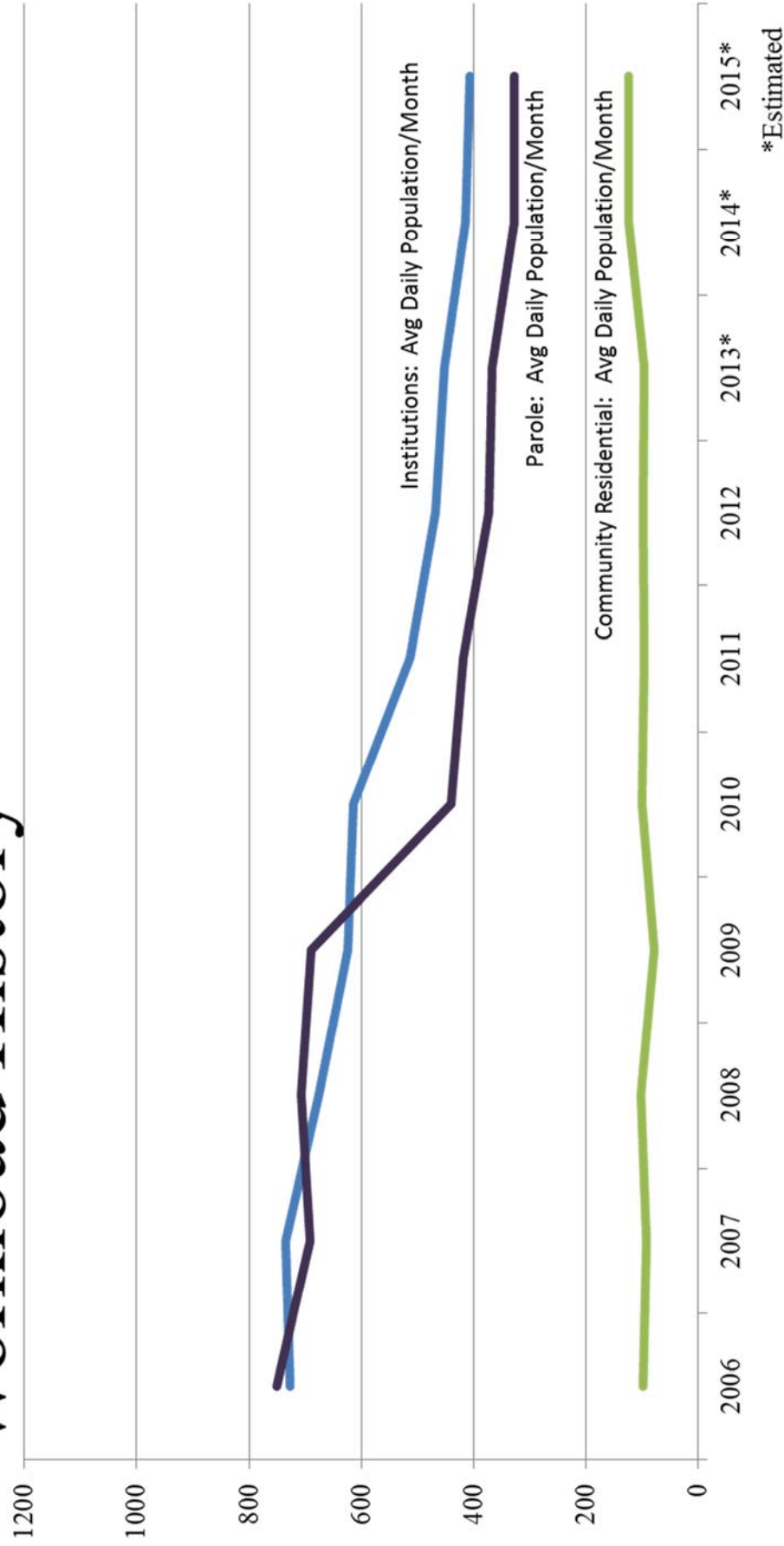
The Special Commitment Center (SCC) confines and provides treatment to adult sexually violent predators that have been civilly committed. The primary facility is on McNeil Island, with a less restrictive alternative in Pierce County (with a capacity of 24) and in King County (with a capacity of 6). (\$72 million NGF-S in 2013-15.)

DSHS Children & Family Services

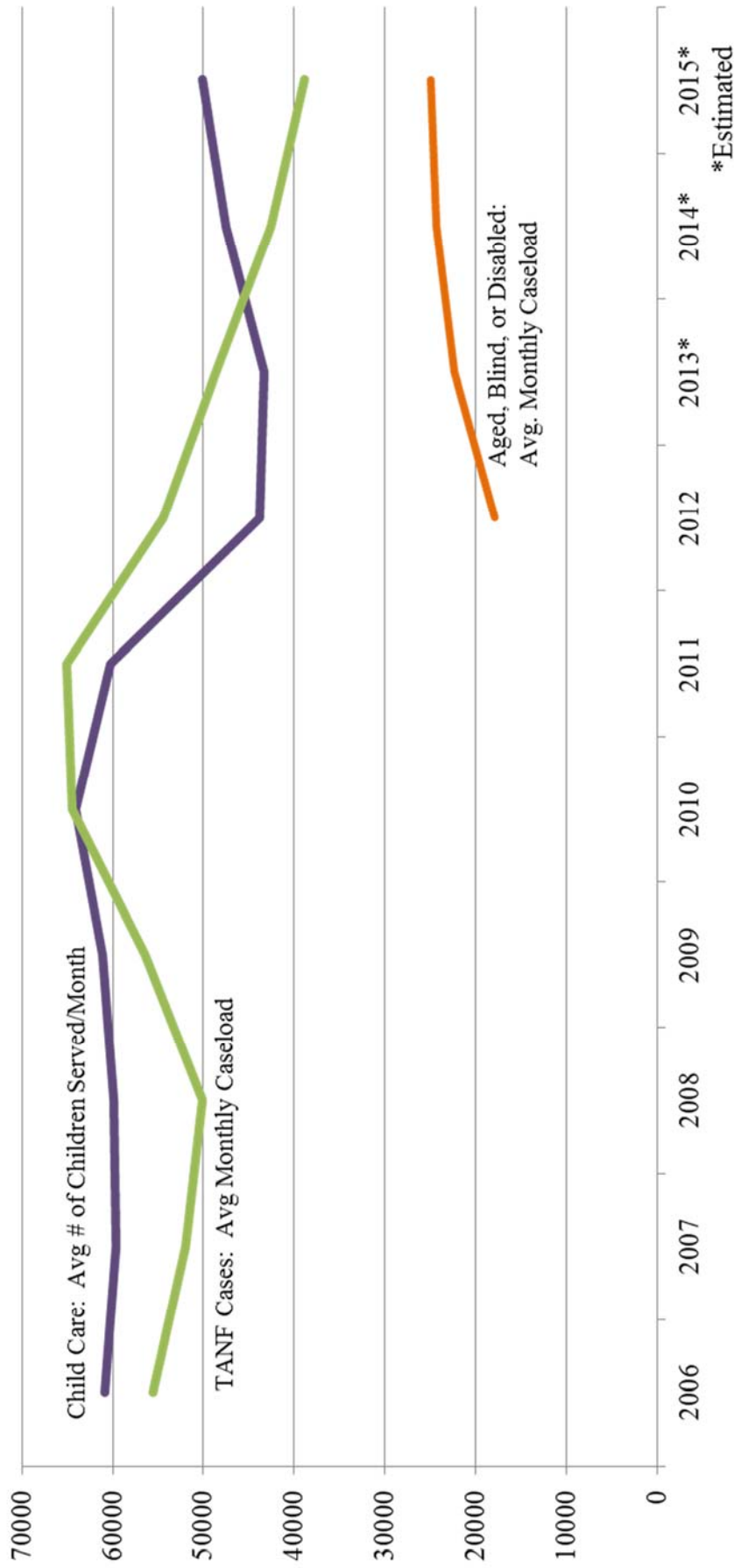
Workload History



DSHS Juvenile Rehabilitation Workload History

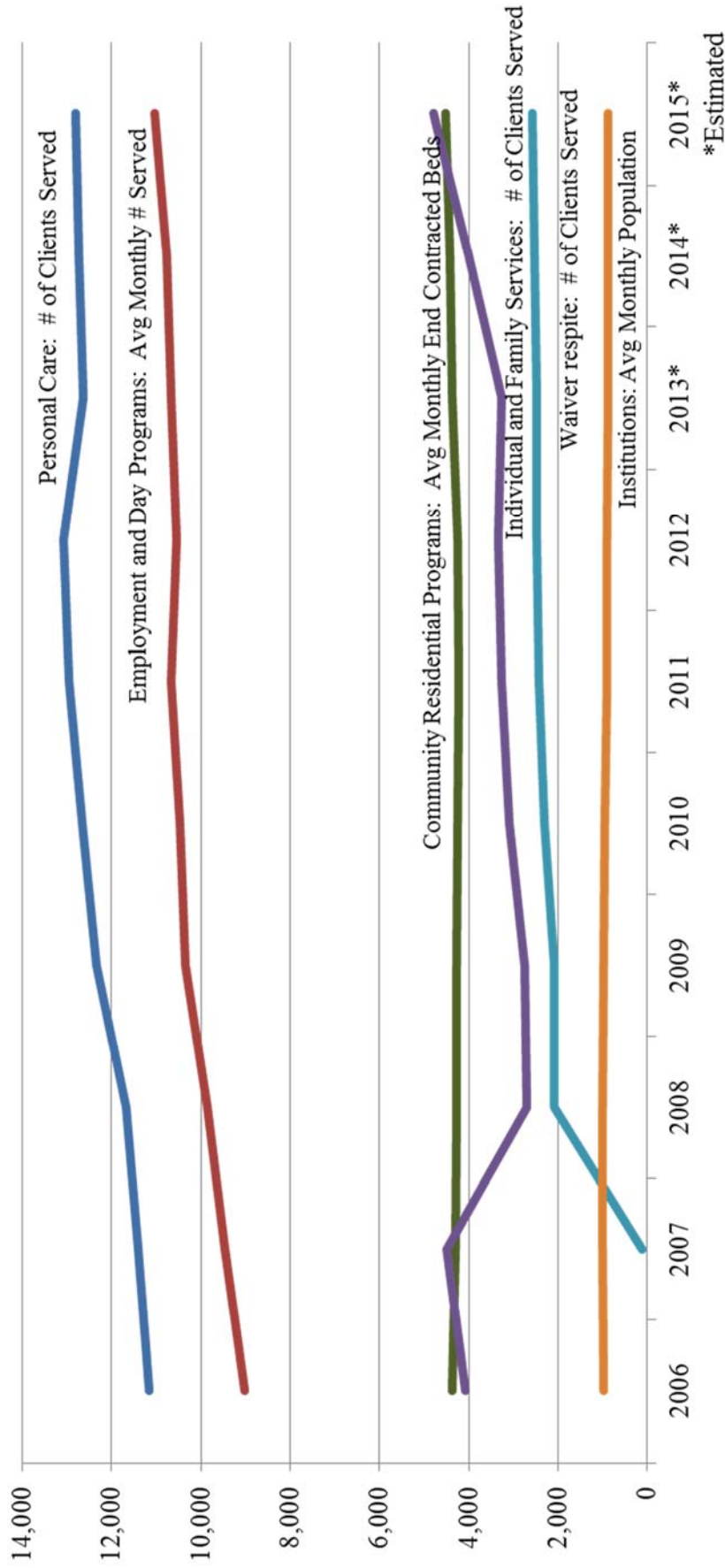


DSHS Economic Services Administration Workload History



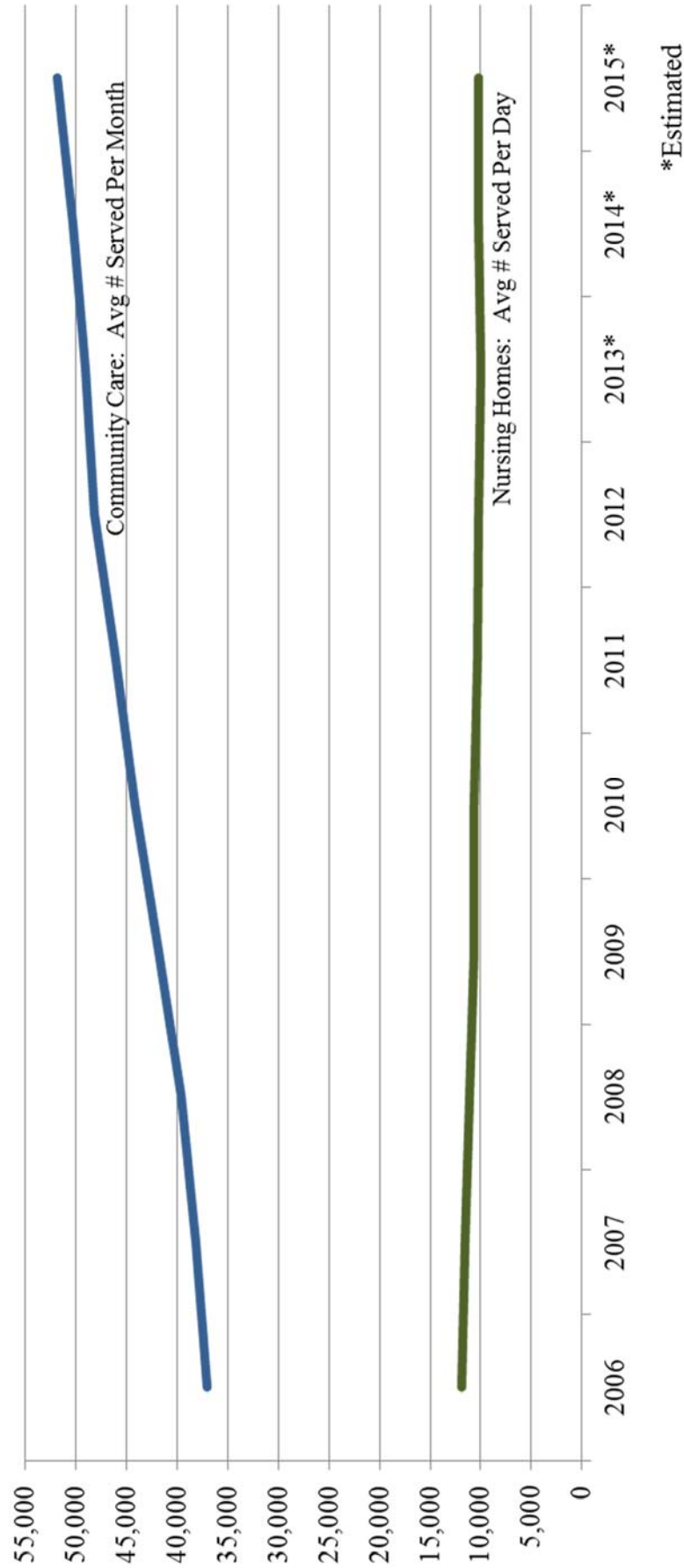
	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Child Care: Avg # of Children Served/Month	60,860	59,593	59,829	61,113	64,127	60,312	43,826	43,322	47,479	50,163
TANF Cases: Avg Monthly Caseload	55,520	51,936	50,119	56,458	64,450	65,137	54,434	48,678	42,548	38,830
Aged, Blind, or Disabled: Avg. Monthly Caseload							17,953	22,296	24,356	24,951

DSHS Developmental Disabilities Workload History

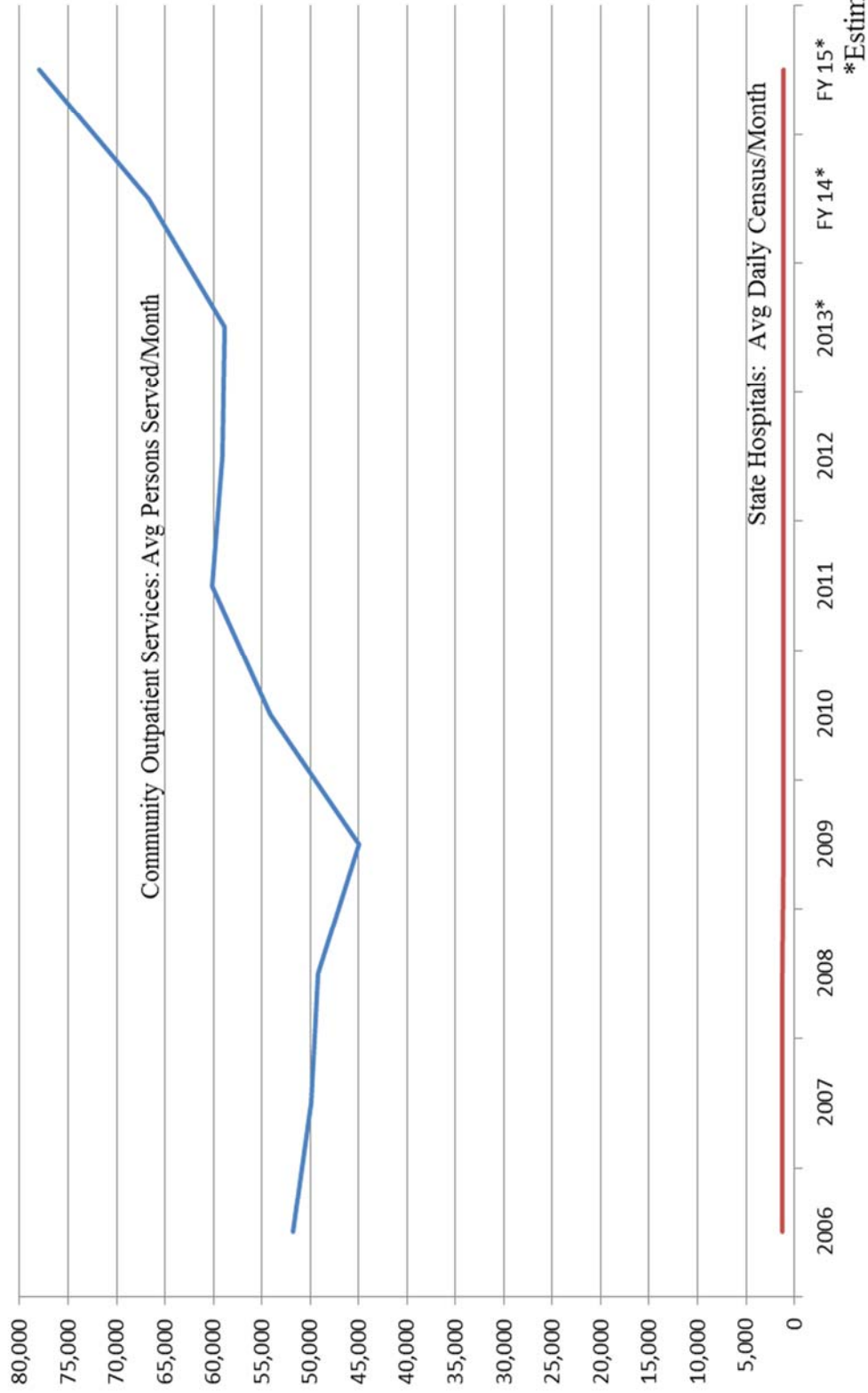


	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Personal Care: # of Clients Served	11,150	11,391	11,662	12,338	12,663	12,943	13,072	12,620	12,727	12,807
Employment and Day Programs: Avg Monthly # Served	9,021	9,454	9,853	10,344	10,479	10,667	10,542	10,676	10,771	11,035
Community Residential Programs: Avg Monthly End Contracted Beds	4,379	4,300	4,269	4,269	4,252	4,230	4,261	4,381	4,417	4,509
Individual and Family Services: # of Clients Served	4,089	4,493	2,708	2,742	3,088	3,265	3,337	3,276	4,000	4,800
Waiver Respite: # of Clients Served	129	2,097	2,097	2,098	2,316	2,440	2,469	2,471	2,540	2,590
Institutions: Avg Monthly Population	982	996	997	982	951	914	905	891	882	872

DSHS Long-Term Care Workload History

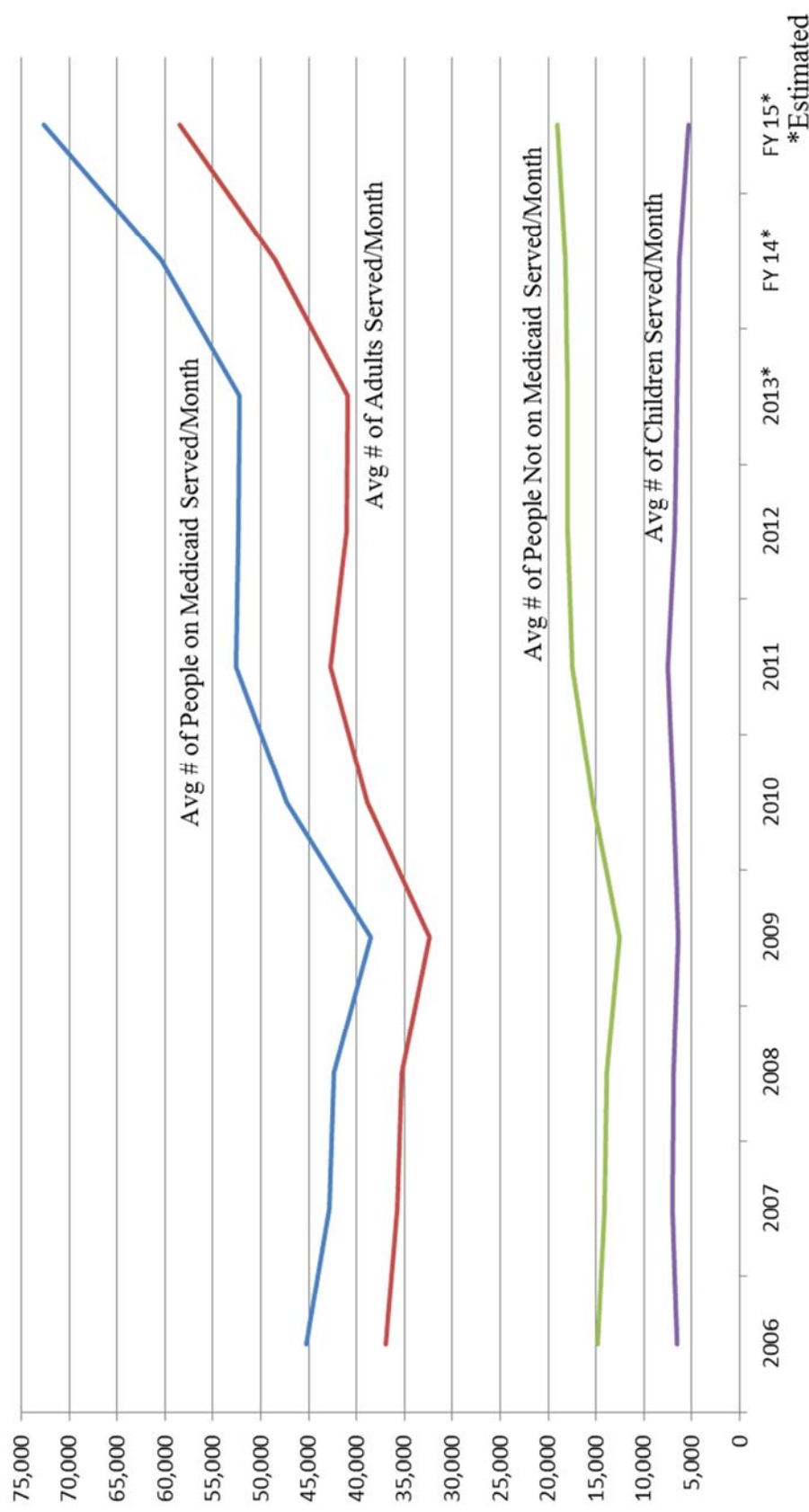


DSHS Mental Health – State Hospitals & Community Outpatient Services Workload History

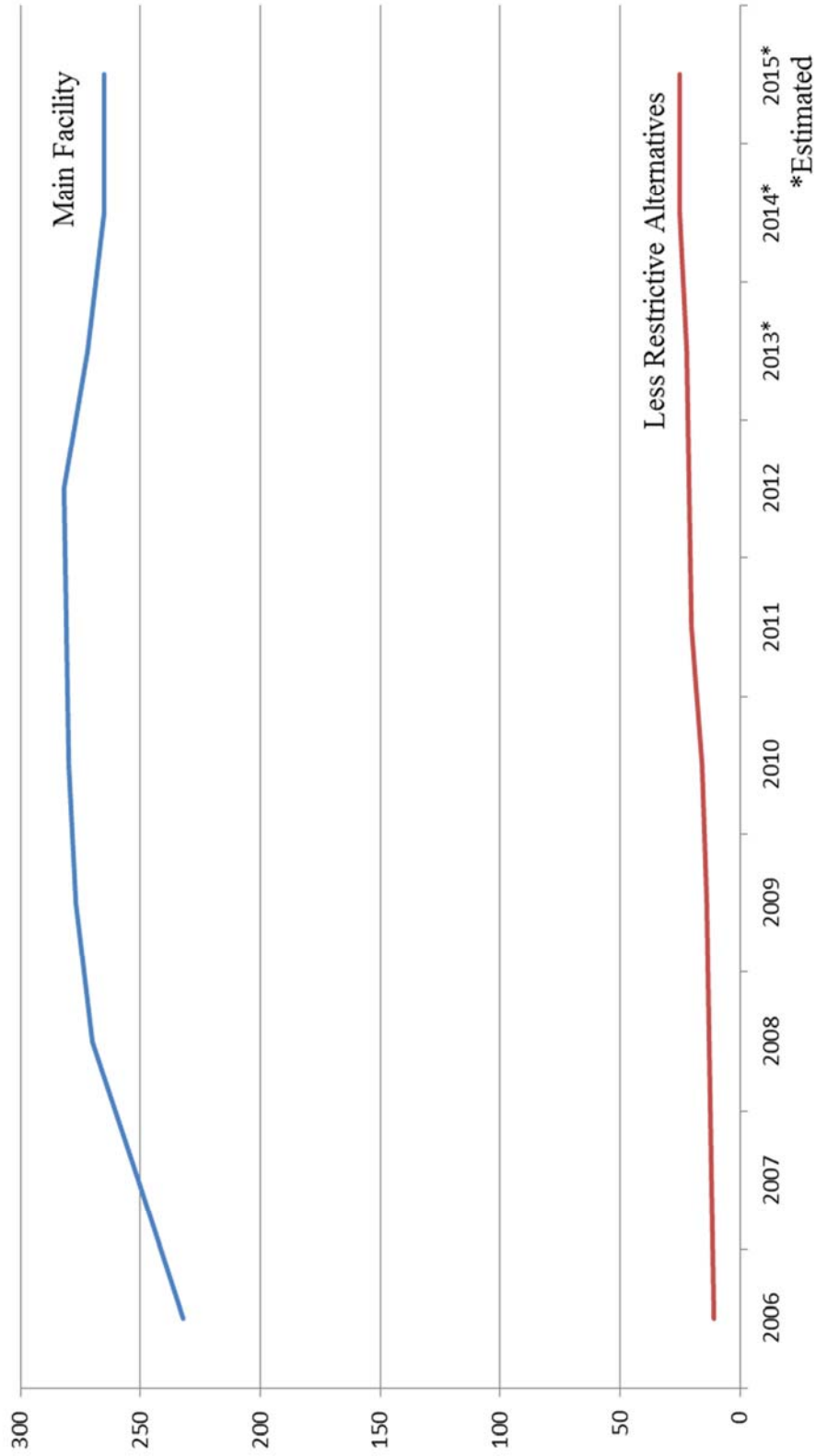


	2006	2007	2008	2009	2010	2011	2012	2013*	FY 14*	FY 15*
Community Outpatient Services: Avg Persons Served/Month	51,779	49,874	49,203	44,953	54,166	60,137	59,050	58,840	66,698	77,971
State Hospitals: Avg Daily Census/Month	1,262	1,292	1,251	1,172	1,101	1,078	1,077	1,078	1,133	1,161

DSHS Mental Health & Community Outpatient Services Workload History

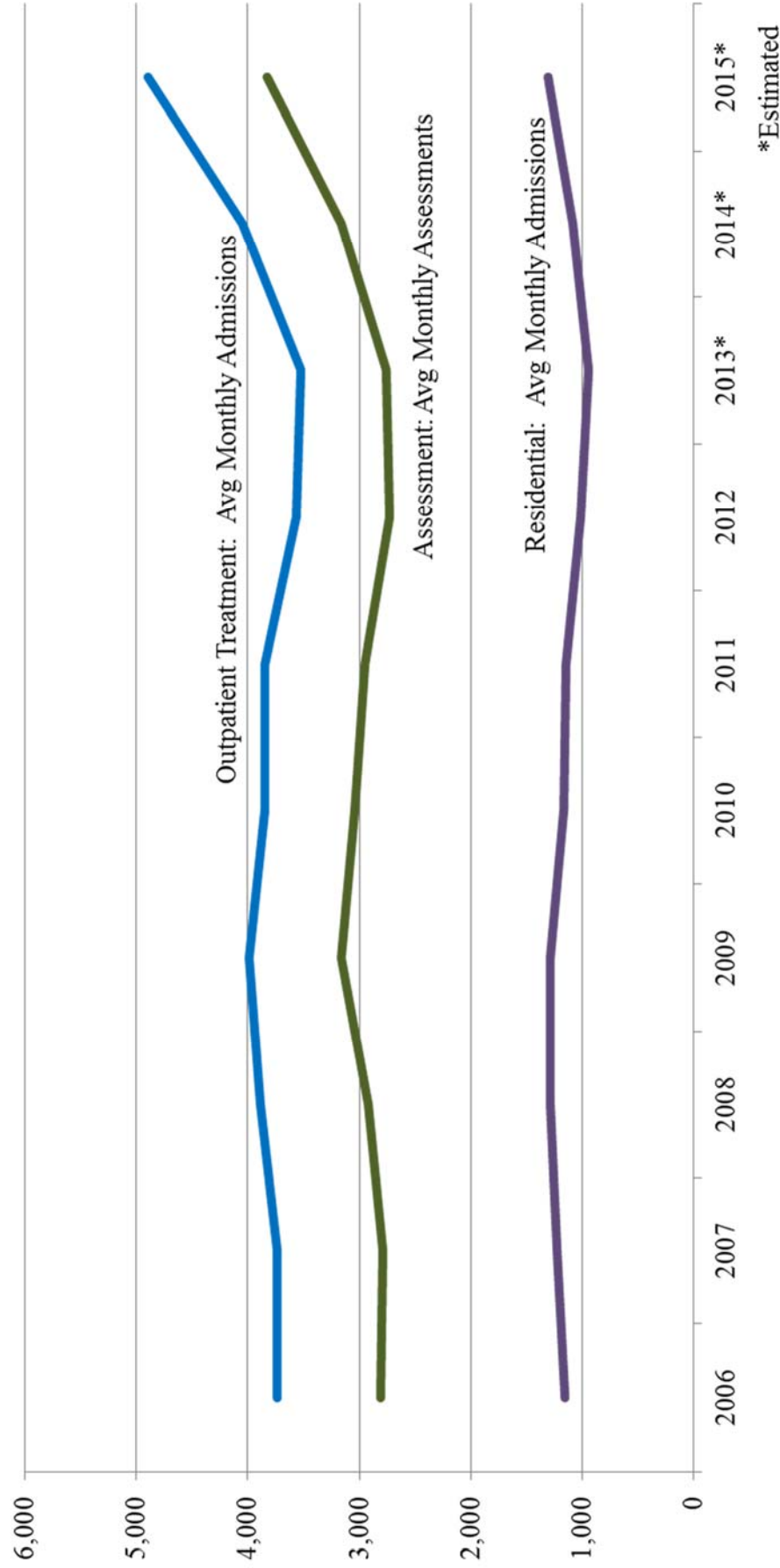


DSHS Special Commitment Center Workload History



	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*
Main Facility	232	251	270	277	280	281	282	272	265	265
Less Restrictive Alternatives	11	12	13	14	16	20	21	22	25	25

DSHS Alcohol & Substance Abuse Workload History



➤ *Health Care Authority*

Overview

The Health Care Authority's (HCA) primary programs are Public Employees Benefits Board (PEBB) plan management and customer service, and medical assistance programs for low income persons. Following is a summary of major HCA activities with an Office of Financial Management estimate of the 2013-15 budget (adopted in 2013) for those activities.

PEBB

PEBB Customer Service – Manages eligibility and administration of state health benefits. (\$30 million in dedicated non-NGF-S funds for 2011-13.)

PEBB Plan Management – Manages the design and delivery of PEBB plans, including health care, dental, life insurance, disability, and home and auto insurance. PEBB covers more than 300,000 persons: Washington State agency employees (including higher education), retirees, and dependents; K-12 retirees; and employees and retirees of participating K-12 public school districts, educational service districts, and political subdivisions. (\$144 million in dedicated non-NGF-S funds for 2013-15.)

Medical Assistance

Healthy Options (Medicaid managed care) - Health care provided to Medicaid clients through the Healthy Options managed care program. Wrap around services are also included that are paid for on a fee-for-service basis for these clients. (\$6.2 billion total in 2013-15, \$2.4 billion of which is NGF-S.)

Non-Healthy Options Medicaid Mandatory Services (Fee for Service) - Provides mandatory Medicaid services for all other eligible clients not enrolled in the Healthy Options managed care program. (\$2.3 billion total, \$986 million NGF-S for 2013-15.)

Non-Healthy Options Optional Medicaid Services (Fee-for-Services) – Optional Medicaid services are provided to eligible clients who are not enrolled in the Healthy Options managed care programs. (\$346 million total in 2011-13, \$179 million NGF-S.)

Supplemental Medicare Insurance Buy-in - Premiums are paid to the Social Security Administration on behalf of recipients eligible for Medicare. (\$742 million total, \$371 million NGF-S for 2013-15.)

Children's Health Program - Health care coverage is provided for children who are not eligible for Medicaid because their families do not meet medical income eligibility criteria or are unable to qualify for other reasons. (\$61 million total, \$46 million NGF-S for 2013-15.)

State Program Clients - Limited health care coverage is provided through state programs for clients who are not covered by Medicaid. These programs include Kidney Disease, Alien Emergency Medical, and General State Only. (\$264 million total, \$124 million NGF-S for 2013-15.)

Health Care Authority – Low Income Medical Assistance

(Moved from DSHS in 2011)

	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015*
Categorically Needy	838,443	844,805	855,043	908,403	992,061	1,042,904	1,062,140	1,075,497	1,101,381	1,140,993
Medically Needy	16,536	13,590	13,567	12,984	12,337	12,856	13,141	12,526	10,640	9,042
Children's Health Insurance Program	11,786	11,406	11,974	14,469	19,290	23,807	25,154	26,072	34,887	46,908
Basic Health Plan	100,444	102,118	104,792	103,590	76,079	52,274	36,955	30,014	13,011	0
State Medical Care Services	18,511	27,219	41,443	47,078	47,220	46,166	37,518	32,666	25,271	17,721
Total Eligibles per Month	986,472	999,871	1,027,493	1,087,282	1,147,916	1,178,794	1,175,735	1,175,535	1,273,529	1,435,133
Medicaid Expansion Adults	0	0	0	0	0	0	0	0	87,984	221,468

NATURAL RESOURCES

Overview

\$1.59 billion is budgeted for natural resources in 2013-15; \$263 million of this is NGF-S. The natural resources budget includes funding for the following agencies and activities:

The Department of Ecology administers environmental laws covering:

- Air Quality
- Water Quality and Water Resources
- Hazardous, Toxic, and Nuclear Waste
- Shoreline and Wetlands Protection
- Oil and Hazardous Material Spills
- Solid Waste Management

The Department of Fish and Wildlife manages the state's fish and wildlife resources, which include:

- Operation of 83 fish hatcheries (there are an additional 51 tribal and 12 federal hatcheries)
- Fishing, hunting, and shellfish licensing and permitting
- Conservation including fish and wildlife management and research
- Habitat preservation
- Fish and wildlife law enforcement
- Land management
- Wildlife viewing

Department of Agriculture activities include:

- Commodity inspection
- Food safety
- Pesticide management
- Plant protection
- International market development for state agriculture products
- Animal health

Department of Natural Resources activities include:

- Upland and aquatic lands
- Forest Practice standards
- Fire prevention and suppression
- Recreation & natural areas
- Geology

State Parks and Recreation has about 40 million visits per year through operation of:

- 117 parks, 5 heritage sites, 13 interpretive centers, and more than 600 historic properties.
- 4,000 miles of trails, including 700 miles of hiking trails, mountain biking trails in nearly 3 dozen parks, equestrian trails in 10 parks and many ocean beaches, and a few water trails
- 140 boat launches covering over 40 parks
- Manages over 120,000 acres

Smaller Agencies/Boards/Commissions

- **Conservation Commission:** Provides non-regulatory outreach and grants to landowners for conservation and environmental restoration.
- **Columbia River Gorge Commission:** Sets land use policy in the Columbia River Scenic Area.
- **Recreational Conservation Office:** Administers grant programs for outdoor recreation, habitat, and farmland protection, provides administrative support for five boards, and provides policy and planning for development of outdoor recreation for the state.
- **Washington Pollution Liability Insurance Agency:** Provides secondary insurance for oil/gas tanks.
- **Environmental and Land Use Hearings Office:** Supports four independent and impartial boards that resolve appeals related to natural resources regulations, and land disputes related to the Growth Management Act.
- **Puget Sound Partnership:** Coordinates state efforts to protect water quality of Puget Sound and efforts to restore Hood Canal.

Other Budget Items

EXPENDITURE LIMIT

Overview of the State Expenditure Limit

Initiative 601, enacted in 1993, established an expenditure limit for the State General Fund (GF-S). The initiative has been amended several times since then. (I-601 also enacted restrictions on legislation raising taxes and fees, which are covered in the next briefing section.)

Expenditure limit is based on the fiscal growth factor

The annual growth in state expenditures is limited to the "fiscal growth factor" plus any adjustments as set forth in statute. Previously, the fiscal growth factor was the average rate of state population increase and inflation, as measured by the implicit price deflator, during the prior three fiscal years. Beginning with the 2007-09 biennium, the fiscal growth factor is based on a 10-year average of state personal income growth.

Funds the expenditure limit applies to

The expenditure limit originally applied only to the State General Fund. Beginning with the 2007-09 biennium, the state expenditure limit applied to the state General Fund and five additional funds: Health Services Account; Violence Reduction & Drug Enforcement Account; Public Safety & Education Account (including the Equal Justice Sub Account); Water Quality Account; and Student Achievement Fund). These related funds merged with the General Fund-State effective July 1, 2009.

Adjustments to the expenditure limit

The expenditure limit is adjusted downward annually to reflect the extent to which actual expenditures in the prior year are less than the maximum amount allowed under the expenditure limit. This is sometimes referred to as rebasing. Other downward adjustments to the spending limit are required when program costs or moneys are shifted out of the State General Fund or related accounts to other dedicated accounts. Upward adjustments to the spending limit occur if program costs or moneys are transferred into the State General Fund or related accounts from other accounts. Other adjustments (both upward and downward) occur if federal or local government costs are shifted to or from the State General Fund.

The Expenditure Limit Committee

The Expenditure Limit Committee calculates the expenditure limit each November and projects an expenditure limit for the next two fiscal years. The Expenditure Limit Committee consists of the Director of Financial Management, the Attorney General or designee, the chairs of the Senate Ways & Means and the House Appropriations committees, and the ranking minority members of the Senate Ways & Means and the House Appropriations committees of the Legislature.

Expenditure Limit Summary

FY 2014*	\$16.09 billion
FY 2015**	<u>\$16.64 billion</u>
2013-15 biennium**	\$32.73 billion
FY 2016**	\$17.34 billion
FY 2017**	<u>\$18.08 billion</u>
2015-17 biennium**	\$35.40 billion
FY 2018***	\$18.84 billion
FY 2019***	<u>\$19.59 billion</u>
2017-19 biennium***	\$38.40 billion

*Actual GF-S spending for FY 14 (\$16.08 billion) is used to calculate the limit for FY 15.

**Estimated/preliminary. The expenditure limit is subject to change based on rebasing, changes to the fiscal growth factor, and legislative actions.

*** Unofficial calculation for planning purposes.

Additional information can be found on the Expenditure Committee internet site at www.elc.wa.gov.

*RESTRICTIONS ON
LEGISLATION THAT RAISES
TAXES AND FEES*

History

These restrictions were first enacted by the voters in 1993 as Initiative 601. Among other things, I-601 required a two-thirds vote of both houses in the Legislature to increase state revenue. In 1994 the state Supreme Court rejected a challenge to I-601, concluding that it lacked jurisdiction over the case. The Legislature temporarily suspended the super-majority requirement from March 2002 through June 2003 and again from April 2005 through June 2006.

Initiative 960, enacted by the voters in 2007, re-imposed the super-majority requirement to increase taxes, and stated that the Legislature may refer tax increases to the voters through the referendum process. I-960 also required prior Legislative approval of new or increased fees. It established publicity and cost projection requirements for legislation that increased taxes or fees, and required an advisory vote for legislation that raises taxes without appearing on the ballot as a referendum.

In 2010, the Legislature suspended until July 1, 2011, the two-thirds vote requirement for tax increases and the requirement for an advisory vote.

In 2010, voters enacted Initiative 1053, which reinstated the statutory requirement that any action by the Legislature that increases taxes must be approved by at least two-thirds of the members in both houses or by referral to the voters. I-1053 also re-imposed the requirement that new fees or fee increases must be approved by a majority legislative action both houses.

In May 2012 King County Superior Court Judge Bruce E. Heller ruled that the super-majority requirement for tax increases under I-1053 is unconstitutional on the ground that the state constitution's legislative majority vote provision prevents a statute from imposing a higher vote requirement (*League of Education Voters, et al. versus State of Washington*). In July 2012 the state Supreme Court accepted direct and expedited appeal of Judge Heller's decision but did not stay his order, meaning that I-1053's requirement for a super-majority to raise taxes is unconstitutional pending the Supreme Court's decision on the matter. During the 2013 Legislative session, the State Supreme Court held that the two-thirds supermajority vote requirement was unconstitutional.

In November 2012 voters approved Initiative 1185 which reinstated I-1053 using virtually the same language. The Supreme Court's 2013 decision makes the two-thirds supermajority requirement in Initiative 1185 ineffective.

Summary of Current Tax and Fee Restrictions

Tax vote requirements. Based on the Supreme Court's ruling a constitutional (simple) majority is required to raise taxes. Legislation that raises state taxes is subject to the publicity and cost projection requirements.

Advisory votes. Legislation that raises taxes must appear on the ballot for a non-binding advisory vote if the legislation is not otherwise placed on the ballot for voter approval.

Fee increases. New fees or fee increases imposed by a state agency require prior legislative approval. A two-thirds vote is not required for fee increases. Legislation that imposes or increases state fees is subject to the publicity and cost projection requirements.

Publicity and cost projection requirements. When legislation that increases or creates taxes or fees is introduced, the OFM must prepare 10-year cost projections, and it must publicize this information to legislators, news media, and the public, along with contact information for the legislators sponsoring the legislation. When this legislation is scheduled for a committee hearing or voted out of committee, OFM must update and re-publicize the cost projection, along with committee members' contact information and votes on the bill. Likewise, when a bill passes off the floor of either chamber, OFM must update and re-publicize the cost projection, along with legislators' contact information and votes on the legislation.

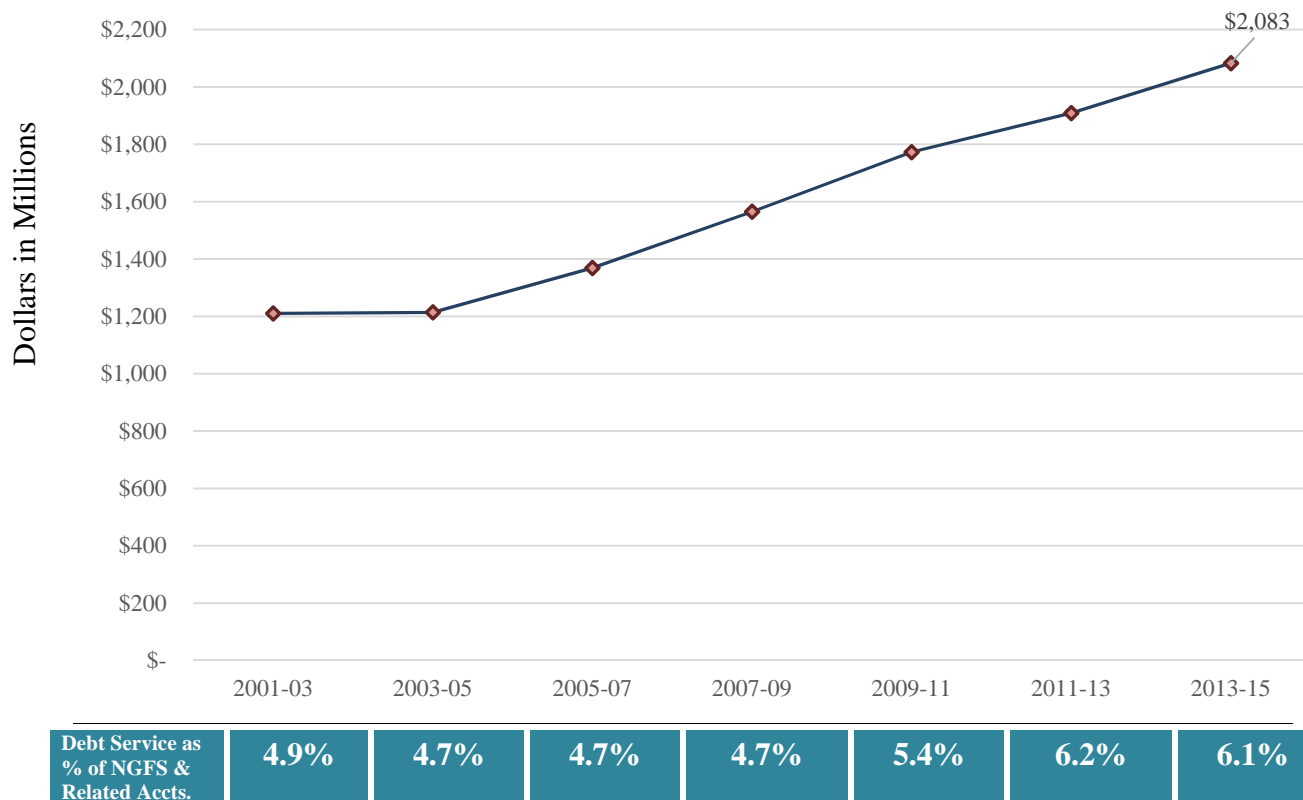
Examples of when these tax and fee restrictions do not apply. These provisions do not apply to local government taxes or fees, or to governmental charges that are neither taxes nor fees (for example, fines and penalties, or charges for commercial transactions).

DEBT SERVICE

Debt Service Paid by the Operating Budget

- **Bonds** to finance the capital budget are issued as needed as projects are completed over about a 4-6 year period.
- The **debt limit** restricts the amount of bonds that can be issued. The Treasurer cannot issue any bonds that would cause the debt service on the new plus existing bonds to exceed the constitutional limit of 9% of general state revenue averaged over six years. Under Engrossed Senate Joint Resolution 8221, adopted by voters in November 2012, the constitutional limit of 9% of general state revenue (GSR) is phased down to 8% of GSR by 2034, and the state portion of property tax is added to the definition of GSR.
- **Bond capacity** for a given biennium is the amount of new appropriations that can be authorized by the Legislature for which the Treasurer can issue bonds to finance without exceeding the debt limit in the future given forecasted variables and a stable capital budget level in future biennia.
- Interest rates, revenue, and other factors affect bond capacity.

Debt service payments are \$2.08 billion in the 2013-15 biennium or 6.1% of near general fund and related account expenditures



NOTE: 2001-03 are actual expenditures, and 2013-15 are current appropriations. Data is adjusted to enhance comparability over time. For NGFS + Opp. Pathways, ARRA and federal jobs funding, the K-12 apportionment delay, and certain one-time large appropriations into “reserve” accounts are adjusted for. Also, and in particular to this chart, an adjustment is made for the timing of debt service payments.

Federal Patient Protection and Affordable Care Act

Federal Patient Protection and Affordable Care Act (ACA)

Background - Originally the ACA required all states to expand Medicaid in 2014 or lose all federal Medicaid matching funds. The U.S. Supreme Court held that mandatory Medicaid expansion is an unconstitutionally coercive use of federal spending authority by Congress on the states. The court retained the Medicaid expansion provisions but made it optional for states. Washington had to decide, among other things, whether to expand Medicaid under the ACA, and did so in the affirmative.

Eligibility Changes - The ACA changes the eligibility requirements for Medicaid, going to a Modified Adjusted Gross Income (MAGI) standard. Under MAGI, the adjusted gross income is calculated under federal income tax provisions plus any foreign income or tax exempt interest received. This applies to families, children, pregnant women, and to newly eligible clients under the expansion. There is a 5% income disregard and there is no longer an asset test.

Federal Match - The regular Medicaid federal match (FMAP) for Washington is 50% (the state covers the other 50%). Under the ACA Medicaid expansion, for states that opt-in, newly eligible populations receive 100% federal match beginning in 2014 and gradually decreasing to 90% in 2020.

Health Insurance Exchanges - All states must establish an affordable health insurance exchange to provide information on health insurance plans and subsidies depending on level of income, or the federal government will provide the exchange in states that do not establish their own. Washington established an exchange called the Washington Healthplanfinder.

"Welcome Mat" Outreach, the individual mandate (upheld by the court), and the "no wrong door" interface in the Washington health benefits exchange are expected to increase enrollment of currently eligible Medicaid clients by 60,000. The Healthplanfinder began taking applications October 1, 2013. Coverage began on January 1, 2014.

Other ACA Items - The following items are unrelated to the expansion:

- The Children's Health Insurance Program (CHIP) receives enhanced federal matching funds from October 1, 2015 through September 30, 2018;
- The primary care physician rate increase, in which states pay Medicare rates in 2013 and 2014 and the federal government pays for the enhancement; and
- The federal government matches administrative costs to implement MAGI.

Washington Opt's in to Medicaid Expansion - In the 2013 session, Washington chose to participate in the Medicaid expansion under the ACA effective January 1, 2014. During the first three years of Medicaid expansion, the federal government will provide a 100% match for the newly eligible groups' medical costs. The Health Care Authority and other state agencies will phase out various state-funded programs or streamline and reduce duplicate coverage and services provided under the ACA. Approximately \$351 million in state savings is anticipated in the 2013-15 biennium as a result of the Medicaid expansion.

PENSIONS

Summary of the State Pension System

Pension Funding – The primary goal of a pension system is to accumulate enough money during a member's working career to pay retirement benefits after the member retires. Actuaries use actuarial funding methods to determine how much employers and employees need to contribute to pensions currently to pay for future retirement benefits. Investment returns play an important role in pension funding and impact the necessary contribution amount of employers and employees over time. Pension funds are invested by the State Investment Board.

The actuarial status or soundness of pension plans depends over time on appropriate employer and employee contribution rates which are impacted by investment returns and future plan/benefit provisions.

Retirement systems - The state retirement system is made up of a number of separate systems based primarily on area of employment, with combined assets of approximately \$75 billion (as of June 2013). As of June 2014, there are 298,023 active members paying in the system, 156,501 receiving benefits, and 227, 651 inactive members (left employment, not yet receiving benefits). Approximately \$3.2 billion is paid out annually in retirement benefits.

- The Public Employees Retirement System (PERS) was created in 1947 and includes most state, city, and county employees (about 263,000 active members and retirees in 2012). There are three plans under this system, PERS 1 (closed), PERS 2, and PERS 3.
- The Teachers Retirement System (TRS) was created in 1937 and includes certified school employees including teachers and certified administrators (about 118,000 active members and retirees in 2012). There are three plans under this system, TRS 1 (closed), TRS 2 (closed), and TRS 3.
- The School Employees Retirement System (SERS) was created in 2000 and covers non-certified school employees (about 70,000 active members and retirees in 2012). There are two plans under this system, SERS 2 (closed) and SERS 3.
- The Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) was created in 1969 and covers full-time police, deputy sheriffs, and firefighters (about 28,000 active members and retirees in 2012). There are two plans under this system, plan LEOFF 1 (closed) and LEOFF 2.
- The Washington State Patrol Retirement System was created in 2003 and covers commissioned officers of the Washington State Patrol (about 2,100 active members and retirees in 2012). There are two plans under this system, WSPRS 1 (closed) and WSPRS 2.
- The Public Safety Employees Retirement System (PSERS) was created in 2004 and took effect in 2006. It currently has about 4,300 active members and retirees. There is one plan under this system, PSERS 2.

- Other systems included in the state system are the Higher Education Retirement Plan (primarily a defined contribution plan open to many college and university employees often referred to as TIAA/CREF), the Judicial Retirement Systems, Judges Retirement System, the First Class Cities (Seattle, Tacoma, Spokane), and the Volunteer Firefighters and Reserve Officers' Relief and Pensions.

Actuarial status

While the state retirement plans that are currently open to new members (Plans 2 and 3) are currently fully funded, unfunded accrued actuarial liabilities (UAALs) exist in both PERS 1 and TRS 1. This means that the present value of the plan liabilities, in the form of members' earned benefits to date, exceed the present value of the plan assets. As of the most recent actuarial valuation (June 2013), the UAAL for PERS 1 and TRS 1 combined is \$7.5 billion. The statutory funding policy for paying off the UAAL in the Plans 1 is codified within the actuarial funding chapter. The payments towards the Plan 1 UAAL are included in employer (state) rates and are not shared by members.

The most recent actuarial evaluation by the State Actuary finds that Washington State has an actuarially sound pension system given the fully funded open plans and the statutory plan to address the UAAL in PERS 1 and TRS 1. The significant negative investment returns in recent years will put upward pressure on contribution rates even as these losses are smoothed over 8 years based on the asset valuation method used by the state.

LEGAL AND OTHER BUDGET CONSIDERATIONS

Other Considerations in Writing the Operating Budget

The State Constitution

The state constitution contains many restrictions on legislation and the process of legislating. Many of these restrictions are mainly procedural--in other words, they affect *how* the Legislature enacts the laws rather than *what* types of laws the Legislature may enact. For the Appropriations Committee, these procedural requirements generally affect what may be included in the operating budget, what types of restrictions may be placed on appropriations, and which appropriation items the governor may veto.

In other cases, the constitution places substantive limits on what the Legislature may enact. In other words, the constitution prohibits the Legislature from enacting certain types of legislation. Substantive restrictions most frequently discussed in the context of the operating and capital budget are lending of credit and special legislation.

The Title/Subject Rule (Procedural)

Article II, section 19 requires that a bill contain only one subject and that this subject be expressed in the bill's title. The first part of the test requires a rational unity among the subparts of a bill; the second part requires that the bill's subject matter be expressed in its title. The purposes of the title/subject rule are preventing "logrolling" and informing legislators and the public of the subject matter of pending legislation. Because budget bills have broad titles and subjects, courts traditionally have given the Legislature a significant amount of latitude in this area and generally allow any subject reasonably germane to the appropriations to be included in the bill. The courts have ruled, however, that this constitutional provision prevents the Legislature from making "substantive law" in the budget bill. The courts generally consider three criteria when determining whether a budget provision is substantive law: (1) whether it affects rights or liabilities; (2) whether it has been included in other legislation; and (3) whether it appears to outlast the biennium covered by the budget.

Appropriation Requirement (Procedural)

Article VIII, section 4 establishes the Legislature's authority over the budget process. This section has three main provisions: (1) Before state agencies may spend money from accounts in the state treasury, they must receive an appropriation in law. In other words, appropriations must be made in bills that pass both houses and are approved by the Governor. (2) Appropriations are temporary in nature. They may be enacted only for made only for the two-year budget cycle and they expire at the end of that cycle. (3) All appropriations must specify an amount, an account, and a purpose.

In some cases, agencies may make expenditures without an appropriation. First, some accounts are non-appropriated and in the custody of the State Treasurer rather than the state treasury. These accounts do not require a specific appropriation if the Legislature establishes the account in that manner. Second, a statutory "unanticipated receipts" process permits expenditure of some non-state moneys without an appropriation if the moneys were not anticipated in the budget and the legislators are notified and given an opportunity to comment.

Governor's Item Veto Powers (Procedural)

Article III, section 12 establishes the Governor's veto power. Generally, for policy bills, the Governor may veto only entire sections of the bill--the Governor may not veto words, sentences, or subsections. In budget bills, the Governor may veto appropriation "items." Items include dollar appropriations and provisos that condition or limit appropriations. In general, the Governor may not veto less than an entire proviso or subsection. If the Governor vetoes a proviso that directs funds within a lump sum appropriation, the veto results in a reduction of the overall appropriations.

Prohibition on Lending of Credit/Gifts of Public Funds (Substantive)

Article VIII, sections 5 and 7, along with Article XII, section 9, prohibit the state and local governments from: (1) making gifts or loans of public funds to private individuals or corporations; (2) investing in private corporations (subject to specified exceptions); or (3) otherwise lending public credit to private individuals or corporations. These prohibitions apply equally to for-profit and non-profit corporations. In addition, Article VII, section 1 requires that tax revenues be spent only for public purposes.

Court decisions interpreting these provisions have established several criteria to determine whether state actions are a prohibited lending of credit or gift of public funds. First, governments may provide assistance to the poor or infirm, or to entities whose purposes are wholly public (such as local governments). Second, governments may lend credit or use public funds for fundamental purposes of government, even if these actions result in private benefit. Third, if public funds are otherwise provided to a private individual or corporation, the expenditure cannot be a loan, gift, or guarantee and must have adequate consideration--that is, legally sufficient compensation to the public in exchange for the benefit received. In addition, courts ask whether the private benefit is incidental to the larger public benefit, and whether public funds have otherwise been placed at risk.

Legislative acts, including appropriations in budget bills, are presumed to be constitutional by the courts. Expenditures with a clearly public purpose that address clear needs, that use a reasonable fiscal and policy approach, and that contain safeguards to ensure the public purpose is accomplished and public funds are protected are more likely to withstand a lending of credit challenge.

Special Legislation (Substantive)

Article I, section 12 and Article II, section 28 may prohibit the Legislature from enacting "special laws"--that is, laws operating on only one individual, private corporation, or municipal corporation. To avoid violating these restrictions, a law must operate on categories or classes rather than specific individuals or entities. A class may consist of one person or corporation, so long as the law applies equally to all members of that class and the law's exclusions are rationally related to the purpose of the statute.

Balanced Budget and Four-year Outlook Requirements

SSB 6636, enacted in 2012, requires that, beginning with the 2013-15 biennium, the legislature adopt a balanced operating budget appropriations bill that leaves a projected positive ending fund balance at the end of the current biennium in the General Fund-State and related accounts. In addition, the projected maintenance level budget cannot exceed the available fiscal resources for the ensuing biennium as calculated for purposes of the balanced budget requirement based on the provisions of SSB 6636.

The Economic and Revenue Forecast Council oversees the preparation of and approves the state budget outlook. A state budget outlook must be published each November based on the November caseload and revenue forecasts, each January based on the Governor's proposed operating budget, and 30 days after a budget is enacted by the Legislature.

Additional details and previous outlooks can be found on the Economic and Revenue Forecast Council's website at: <http://www.erfc.wa.gov/forecast/budgetOutlook.shtml>

Appendix 1:

Revenue Overview

General Fund Revenue by Source:

<u>Forecast by Source</u>	<u>2015-17* Biennium</u>	
Tax	Amount (in Millions)	Percent of GF
Retail sales & use	\$18,857.7	51.9%
Business & occupation	\$7,406.9	20.4%
Property (state school levy)	\$4,146.2	11.4%
Other	\$1,391.9	3.8%
Real estate excise	\$1,259.2	3.5%
Insurance premiums	\$1,016.6	2.8%
Public Utility	\$845.2	2.3%
Cigarette & tobacco products	\$844.8	2.3%
Liquor, beer, & wine	\$551.0	1.5%
Total	\$36,319.5	100%

*Based on November 2014 revenue forecast.

Not included above: Education Legacy Trust Account (\$428m from estate taxes, and portions of real estate excise and public utility taxes) and Opportunity Pathways (\$237m from Lottery)

Retail Sales Tax

- ▶ State Rate: 6.5% of selling price.
 - Plus local option rates.
 - Total (state + local) rate ranges from 7.0 to 9.5%.
- ▶ Applies to: Retail sales and use of goods, and services such as construction and repair.
- ▶ Major exemptions: Food, prescription drugs, many services, manufacturing machinery and equipment.

Business and Occupation Tax

- ▶ State Rate: Ranges from 0.138% to 3.3%.
 - Most common rates: 0.471% - Retailing; 0.484% wholesaling/manufacturing; 1.8% services and other activities.
- ▶ Applies to: Business gross receipts.
- ▶ Major exemptions: Investment income, rental of real estate, real estate loans, manufacturing equipment, agriculture, very small businesses.

Property Tax

- ▶ Rate: Varies each year due to application of the 1% limit.
 - State rate for 2014: \$2.25 per \$1000 assessed value.
 - Local: Varies by district.
 - State and local average combined rate for 2014: \$12.21
- ▶ Applies to: Assessed value of property.
- ▶ Assessed value = market value, with some exceptions.
- ▶ Major exemptions: Government property, property of some nonprofit organizations, seniors' residences (partial exemption), household goods, business inventories.
- ▶ Assessed value has less impact on collections than one might think.
- ▶ State collections may grow 1% plus new construction.

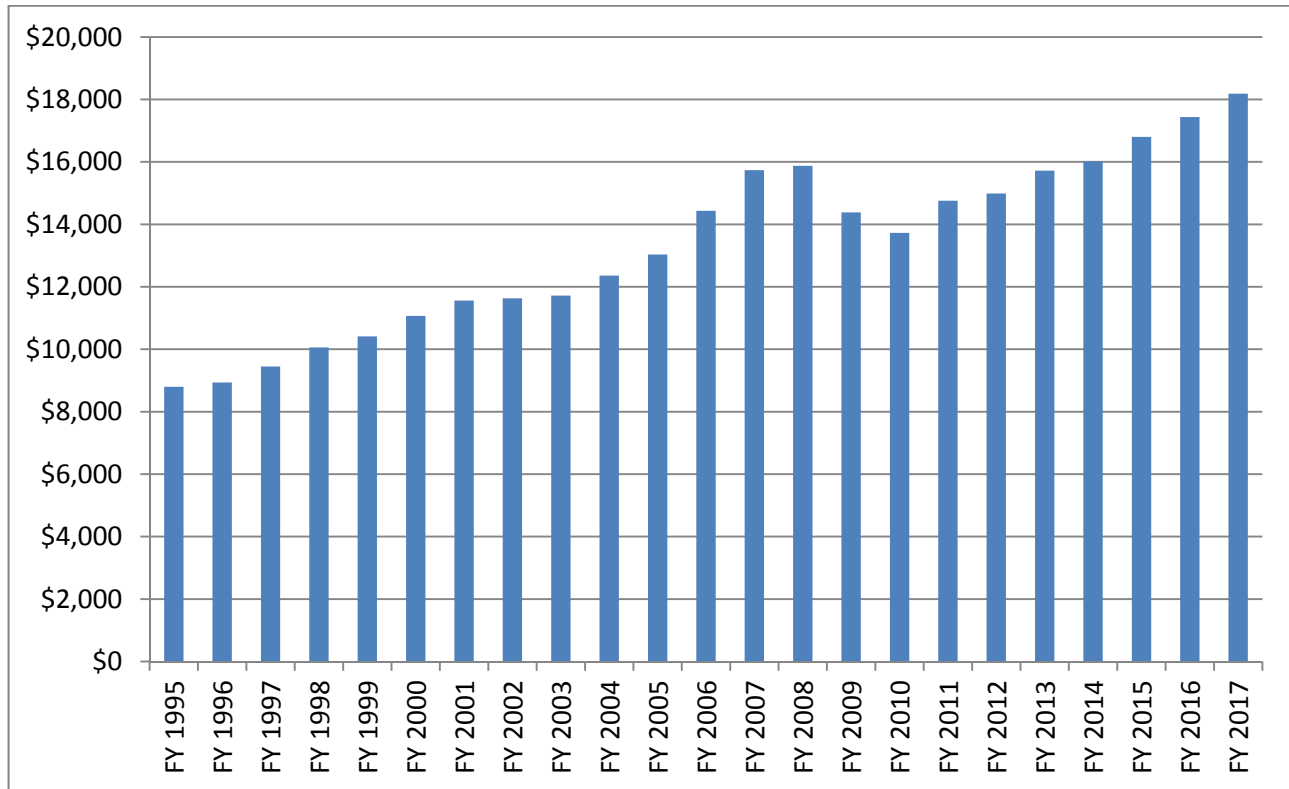
Property Tax: Constitutional Restrictions

- ▶ Constitutional uniformity requirement:
 - Assessed values must be a uniform percentage of market value.
- ▶ Constitutional 1% limit:
 - Tax rates must not exceed 1% of value, unless voter approved (e.g. school levies).
 - 1% = \$10 per thousand dollars of value.

Revenue Forecast Process

- ▶ Revenue Forecast is updated four times a year
 - March (February in even-numbered years)
 - June
 - September
 - November (basis for Governor's budget proposal)
- ▶ Economic and Revenue Forecast Council
 - Employs forecast supervisor
 - Six members, one member from each caucus of House and Senate plus two Governor appointees

Historical and Projected NGFS Revenue Collections Since 1995:



Extraordinary revenue

In 2011, Senate Joint Resolution 8206 amended the constitution to transfer three quarters of any extraordinary revenue growth to the Budget Stabilization Account at the end of each fiscal biennium. The transfer of extraordinary revenue growth is in addition to the existing 1 percent transfer and will be made only to the extent that it exceeds that transfer.

"Extraordinary revenue growth" is defined as the amount by which the growth in general state revenues exceeds by one-third the average biennial growth in general state revenues over the prior five biennia. The transfer of extraordinary revenue growth will not take place in a fiscal biennium following a fiscal biennium in which state employment growth averaged less than 1 percent. In determining whether extraordinary revenue growth has occurred, historical general state revenues must be adjusted to reflect statutory changes to revenue dedication.

Appendix 2:

Glossary of Budget Terms

Budget Terms

Appropriation – The legislative authorization in a bill to make expenditures and incur obligations from a particular fund. Appropriations typically limit expenditures to a specific amount and purpose within a fiscal year or biennial timeframe.

Biennium – A two-year fiscal period. The Washington State biennium runs from July 1 of an odd-numbered year to June 30 of the next odd-numbered year. (The 2015-17 biennium begins on July 1, 2015 and ends June 30, 2017).

Budget Notes – A legislative fiscal staff publication that summarizes the budget passed by the state Legislature. The publication is usually distributed a few months after the end of the legislative session. Budget notes provide guidance but do not have the same legal force as appropriation bill language.

Bow Wave – Any additional cost (or savings) that occurs in the future because a budget item in the current biennium is not in place for the entire biennium. Example: A program started in the last six months of this biennium might cost \$100,000. If that program operates for a full 24 months next biennium, costing \$400,000, then the current biennium budget decision is said to have a bow wave of \$300,000.

Caseloads – Caseload means the number of persons expected to meet entitlement requirements and utilize the services of state correctional institutions, state correctional non-institutional supervision, state institutions for juvenile offenders, the public schools (K-12), long-term care, medical assistance, foster care, and adoption support. Entitlement program caseloads are forecasted by the Caseload Forecast Council.

Dedicated Funds – Funds set up by law to receive revenue from a specific source and that may only be spent for a specific purpose.

Entitlement – A service or payment that, under state or federal law, must be provided to all applicants who meet the eligibility requirements.

Fiscal Year – The state fiscal year is the 12-month period from July 1 through the next June 30. Fiscal Year (FY) 2015 begins July 1, 2014 and ends June 30, 2015. The federal fiscal year runs October 1 through September 30.

Fiscal Note – A statement of the estimated fiscal impact of proposed legislation. This cost estimate is developed by the state agencies affected by the bill, and then approved and communicated to the Legislature by the Governor's Office of Financial Management.

Full-Time Equivalent (FTE) – *As a unit of measure of state employees:* refers to the equivalent of one person working full-time for one year (approximately 2,088 hours of paid staff time). Two persons working half-time also count as one FTE. *As a unit of measure of students in K-12 or higher education:* refers to the equivalent of one student attending class full-time for one school year (based on fixed hours of attendance, depending on grade level).

Fund – An independent budget and accounting entity with a self-balancing set of accounts representing all related resources, obligations and reserves.

Fund Balance – In budget terminology, the difference between estimated resources and budgeted expenditures.

General Fund-State – The general fund represents all financial resources and transactions not required by law to be accounted for in other funds. General Fund-State (GF-S) refers to the basic account that receives revenue from Washington’s sales, property, business and occupation, and other general taxes; and is spent for operations such as public schools, social services, and corrections.

Maintenance Level – A projected expenditure level representing the estimated cost of providing currently authorized services in the ensuing biennium. It is calculated using current appropriations, the bow wave of legislative intentions assumed in existing appropriations (costs or savings), and adjustments for trends in entitlement caseload/enrollment and other mandatory expenses.

Nonappropriated Funds – Funds where expenditures can be made without legislative appropriation. Only funds specifically established in state law and that are outside the state treasury may be exempt from appropriation (one notable example is tuition at higher education institutions).

Operating Budget – A series of specific appropriations made to individual agencies, typically in a bill providing for the administrative and service functions of state government, including K-12, higher education, and human services.

Performance Measure – A quantitative indicator of how programs or services are directly contributing to the achievement of an agency’s objectives. These indicators may include measure of inputs, outputs, outcomes, productivity, and/or quality.

Proviso – Language in budget bills that places a specific condition on the use of appropriations. Example: “\$500,000 of the General Fund-State appropriation is provided solely for five additional inspectors in the food safety program.”